MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THIRTEEN AND THIRTY-NINE WEEKS ENDED OCTOBER 31, 2015

Dated December 10, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis ("MD&A") is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Hudson's Bay Company and its direct and indirect subsidiaries and predecessors or other entities controlled or jointly controlled by them, referred to herein as "HBC", the "Company", "we", "us", or "our". It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company and notes thereto for the thirteen and thirty-nine week periods ended October 31, 2015. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

The contents of this MD&A were approved by the Company's Audit Committee. This MD&A reflects information as of December 10, 2015.

Basis of Presentation

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

General Information

Hudson's Bay Company is a Canadian corporation amalgamated under the *Canada Business Corporations Act*. In January 2012, through an internal reorganization, Lord & Taylor LLC ("Lord & Taylor") became a wholly owned subsidiary of HBC. On November 26, 2012, the Company completed an initial public offering (the "IPO") of its common shares (the "Common Shares"), which trade on the Toronto Stock Exchange under the symbol "HBC."

On November 4, 2013, the Company completed its acquisition of all of the outstanding shares of Saks Incorporated ("Saks"), in an all-cash transaction valued at U.S.$2,973 million ($3,097 million), including assumed debt (the "Saks Acquisition").

On July 9, 2015, the Company and RioCan Real Estate Investment Trust ("RioCan") closed the first tranche of their joint venture RioCan-HBC Limited Partnership ("RioCan-HBC JV"), which focuses on real estate growth opportunities in Canada. The second tranche of the RioCan-HBC JV closed on November 25, 2015. As of October 31, 2015, HBC had an 86.6% ownership interest in the RioCan-HBC JV, and subsequent to the closing of the second tranche, has an 89.7% ownership interest.

On July 22, 2015, the Company and Simon Property Group Inc. ("Simon") closed their joint venture, Simon HBC Opportunities LLC ("HBC-Simon JV"). On September 30, 2015, prior to the acquisition discussed below, the HBC-Simon JV became a wholly-owned subsidiary of HBS Global Properties LLC ("HBS Joint Venture"), which focuses on credit tenant, net-leased and multi-tenant retail buildings in the United States and internationally. As of October 31, 2015, HBC had a 91.8% ownership interest in the HBS Joint Venture. Subsequent to HBC's sale of U.S.$533 million of equity in the HBS Joint Venture to third party investors on November 17, 2015, HBC has a 69% ownership interest.

As further described below, on September 30, 2015 (the "Kaufhof Acquisition Date"), the Company completed the acquisition (the "Kaufhof Acquisition") of GALERIA Holding, the parent company of Germany's leading department store GALERIA Kaufhof and Belgium's only department store, GALERIA Inno for a purchase price of €2.3 billion. In conjunction with the Kaufhof Acquisition, the HBS Joint Venture acquired 41 Kaufhof properties.

References in this MD&A to Department Store Group ("DSG") refer to the Company as structured prior to the Saks Acquisition (i.e., excluding Saks Fifth Avenue and OFF 5TH). Home Outfitters merged into the home business at Hudson's Bay during the second quarter of Fiscal 2014. As such, Home Outfitters is reported within DSG effective the third quarter of Fiscal 2014.

References in this MD&A to Legacy HBC refer to the Company as structured prior to the acquisition of HBC Europe (i.e. excluding HBC Europe).

References in this MD&A to HBC Europe include GALERIA Kaufhof, GALERIA Inno and Sportarena.

References in this MD&A to the Queen Street Sale refer to the sale of the Company's downtown Toronto flagship store and adjacent Simpson's Tower office complex in the first quarter of Fiscal 2014 (see note 21 of the unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine week periods ended October 31, 2015).

Unless otherwise specified, the Company's financial information outlined herein includes HBC Europe's operating results from the Kaufhof Acquisition Date.

Accounting Periods

This MD&A is based on the unaudited interim condensed consolidated financial statements and accompanying notes thereto for the thirteen and thirty-nine week periods ended October 31, 2015.

Forward-Looking Statements

Certain statements made in this MD&A, including, but not limited to, the benefits that are expected to result from the acquisition of HBC Europe, the impact on the Company's reported gross profit and expense margins as a result of the acquisition of HBC Europe, the benefits that are expected to result from the North American operations realignment initiative, the Company's prospects for future growth opportunities, including targeting acquisitions, the impact on sales as a result of geo-political events, the Company's growth strategies of improving retail operations, unlocking the value of real estate, and earnings guidance in respect of Sales, Adjusted EBITDAR and Adjusted EBITDA for each of Fiscal 2015 and 2016, and other statements that are not historical facts, are forward-looking. Often but not always, forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology.

Forward-looking statements are based on current estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct.

Implicit in forward-looking statements in respect of Sales, Adjusted EBITDAR and Adjusted EBITDA for Fiscal 2015 and 2016, are certain current assumptions, including, among others, the Company achieving low single digit same store sales growth on a constant currency basis in each of Fiscal 2015 and 2016, the Company realizing annualized cost savings and synergies during Fiscal 2016 totaling $75 million from the recently announced North American operations realignment program, the Company achieving $100 million in synergies from the continued integration of Saks, the Company opening new stores in North America, the Company maintaining a significant ownership interest in the HBS Joint Venture and the RioCan-HBC JV, and assumptions regarding currency exchange rates for each of Fiscal 2015 and 2016. Specifically, we have assumed the following exchange rates: USD:CAD = 1:1.30 and EUR:CAD = 1:1.50 for Fiscal 2015, and USD:CAD = 1:1.32 and EUR:CAD = 1:1.50 for Fiscal 2016. These current assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that actual future operating results and economic performance of the Company, including with respect to our anticipated Sales, Adjusted EBITDAR and Adjusted EBITDA for each of Fiscal 2015 and 2016, are subject to a number of risks and uncertainties, including, among others described below, general economic, market and business conditions, changes in foreign currency rates from those assumed, the risk that the Company may not achieve same store sales growth on a constant currency basis and the risk that the Company many not achieve the contemplated cost savings and synergies as described above, and could differ materially from what is currently expected as set out above.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors" section of this MD&A: ability to execute retailing growth strategies, ability to continue same store sales growth, changing consumer preferences, marketing and advertising program success, damage to brands and dependence on vendors, ability to realize synergies and growth from strategic acquisitions, ability to make successful acquisitions and investments, successful inventory management, loss or disruption in centralized distribution centers, ability to upgrade and maintain our information systems to support the organization and protect against cyber-security threats, privacy breach, risks relating to our size and scale, loss of key personnel, ability to retain key personnel of HBC Europe, ability to attract and retain qualified employees, deterioration in labour relations, ability to maintain pension plan surplus, funding requirement of Saks' pension plan, funding requirement of the HBC Europe pension plan, limits on insurance policies, loss of intellectual property rights, insolvency risk of parties which we do business with or their unwillingness to perform their obligations, exposure to changes in the real estate market, loss of flexibility with respect to properties in the joint ventures, successful operation of the joint ventures to allow us to realize the anticipated benefits, exposure to environmental liabilities, liabilities associated with Target Corporation, changes in demand for current real estate assets, increased competition, change in spending of consumers, international operational risks, fluctuations in the U.S. dollar, Canadian dollar, Euro and other foreign currencies, increase in raw material costs, seasonality of business, extreme weather conditions or natural disasters, ability to manage indebtedness and cash flow, risks related with increasing indebtedness, restrictions of existing credit facilities reducing flexibility, ability to maintain adequate financial processes and controls, ability to maintain dividends, ability of a small number of shareholders to influence the business, uncontrollable sale of the Company's common shares by significant shareholders could affect share price, constating documents discouraging favorable takeover attempts, increase in regulatory liability, increase in product liability or recalls, increase in litigation, developments in the credit card and financial services industries, changes in accounting standards, other risks inherent to our business and/or factors beyond our control which could have a material adverse effect on us. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

The purpose of the forward-looking statements is to provide the reader with a description of management's current expectations regarding the Company's financial performance and may not be appropriate for other purposes; readers should not place undue reliance on forward-looking statements made herein. To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlooks, within the meaning of securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlooks, as with forward-looking information generally, are based on assumptions and subject to risks, uncertainties and other factors. Furthermore, unless otherwise stated, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation or as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including gross profit, EBITDA, EBITDAR, Adjusted EBITDAR, Adjusted EBITDA, Normalized Net (Loss) Earnings, Normalized Selling, General & Administrative Expenses ("Normalized SG&A") and Legacy SG&A to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors, rating agencies and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to

period, prepare annual operating budgets and assess our ability to meet our future debt service, capital expenditure and working capital requirements.

For additional detail, refer to our tables outlining the relevant definitions and reconciliations of Net Earnings (Loss) to EBITDA, Adjusted EBITDAR and Adjusted EBITDA, SG&A to Normalized SG&A and Legacy SG&A and Net Earnings (Loss) to Normalized Net (Loss) Earnings.

This MD&A also makes reference to certain financial results expressed on a constant currency basis. In calculating the same store sales change on a constant currency basis, prior year foreign exchange rates are applied to both current year and prior year same store sales. This enhances the ability to compare underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations. Definitions and calculations of same store sales differ among companies in the retail industry. See "Factors Affecting Our Performance – Same Store Sales".

Third Quarter Events

- On August 18, 2015, the Company announced the appointment of Janet Schalk as Chief Information Officer.

- On September 10, 2015, the Company declared a quarterly dividend, which was paid on October 15, 2015 to shareholders of record at the close of business September 30, 2015, in the amount of $0.05 per Common Share.

- On September 11, 2015, the Company announced the addition of three of its iconic retail banners to American Dream New Jersey: Saks Fifth Avenue, Lord & Taylor, and Saks Fifth Avenue OFF 5TH. Opening in late summer 2017, the mega complex will house a mix of retail, restaurants and entertainment, and is expected to welcome 40 million visitors annually. These stores are all slated to open in late summer 2017.

- On September 18, 2015, the Company announced the appointment of Dion Rooney as Executive Vice President, Digital.

- On September 29, 2015, the Company announced its North American operations realignment initiative which is expected to generate an additional $75 million in expected annual cost savings and synergies during Fiscal 2016.

- On September 30, 2015, the Company and the HBS Joint Venture completed the previously announced Kaufhof Acquisition for approximately €2.3 billion ($3.5 billion). The transaction was structured such that effectively, the Company acquired the operating business and certain properties of Kaufhof ("Kaufhof Operating Business") for approximately €709 million ($1,068 million) while the HBS Joint Venture acquired 41 Kaufhof properties (the "Kaufhof Property Business") valued at €1.6 billion ($2.4 billion), in each case, for accounting purposes. The Kaufhof Acquisition was completed in accordance with the previously announced definitive merger agreement dated as of June 15, 2015, as amended. The Kaufhof Acquisition was financed by a combination of new debt financing by HBC, additional contributions by Simon and the creation of a new the HBS Joint Venture debt facility. The new facility was secured by 41 Kaufhof properties acquired by the HBS Joint Venture with a transaction value of €2.6 billion ($4.0 billion). For further details of the transaction, please see section entitled "Kaufhof Transaction".

- On October 26, 2015, the Company announced the launch of Find @ Lord & Taylor, a new off-price concept catering to a younger demographic and delivering on-trend, in-season product at competitive prices. After opening its first store in Paramus, New Jersey in November 2015, Find @ Lord & Taylor will launch in the Northeastern United States, with six additional store openings planned for 2016.

- The Company opened six Saks Fifth Avenue OFF 5TH ("OFF 5TH") stores, which are located in Vacaville, California; Cerritos, California; Santa Barbara, California; Newark, Delaware; Lutz, Florida and Chicago, Illinois. The Company closed three Home Outfitters stores located in Calgary, Alberta; Guelph, Ontario and Newmarket, Ontario.

Subsequent Events

- On November 17, 2015, the Company announced that it sold for total of U.S.$533 million, a portion of its equity in the HBS Joint Venture, to three new third party investors. Proceeds from the equity sale, together with cash on hand, were used to reduce the Company's outstanding U.S. Term Loan B incurred in connection with the closing of the Kaufhof Acquisition from U.S.$1,085 million to U.S.$500 million. The total third party investment of U.S.$533 million values the HBS Joint Venture's portfolio at approximately U.S.$4.5 billion[1] based on a blended capitalization rate of 5.90%, and comprised of individual investments from the following entities:

  - U.S.$250 million equity investment by Ivanhoé Cambridge;
  - U.S.$150 million equity investment by Madison International Realty; and
  - U.S.$133 million equity investment by a large U.S. pension.

  As a result of the transaction, the Company expects to recognize a gain on the equity sale equal to approximately U.S.$400 million, and write off costs associated with the U.S. Term Loan B equal to approximately $30 million in the fourth quarter of Fiscal 2015. Both of these elements will be normalized for the purpose of calculating Adjusted EBITDAR and Adjusted EBITDA for the thirteen and fifty-two weeks ended January 30, 2016.

  (1) Assumes a EUR:USD exchange rate of 1:1.07. Represents the value of the properties after all transactions are completed, including the post-closing acquisition of certain German real estate properties and the minority interest related to the Kaufhof transaction, expected to occur within five months of the Kaufhof Acquisition Date.

- On November 25, 2015, the Company announced that it closed the second tranche of the RioCan-HBC JV focused on real estate growth opportunities in Canada. As part of the second tranche closing HBC indirectly contributed three ground-leased properties consisting of Yorkdale Shopping Centre, Scarborough Town Centre and Square One (collectively the "YSS Properties") totaling 735,926 square feet to the RioCan-HBC JV. The transaction values this second tranche of the HBC real estate contribution at approximately $379 million based on a capitalization rate of 5.26%.

  On August 4, 2015, HBC obtained a favourable court declaration and order from the Superior Court of Justice-Ontario which permitted the indirect contribution of the three ground-leased YSS Properties to the RioCan-HBC JV. This court order has been appealed by the related landlords. If the landlords' appeal is successful, HBC and RioCan have agreed to unwind HBC's capital contribution of these ground leases, in whole or in part, if required to protect the value of these assets.

  The leases for the YSS Properties were assessed and classified as operating leases. In the fourth quarter of Fiscal 2015, the Company will recognize a pre-tax gain on the contribution of the YSS Properties of approximately $28 million based on RioCan's interest in the RioCan-HBC JV after the closing of the second tranche. Additionally, as part of the transaction, the Company's mortgage on the Yorkdale ground lease of approximately $47 million was assumed by an entity related to the RioCan-HBC JV, resulting in a total HBC equity stake of $1,281 million or 89.7% in the RioCan-HBC JV.

Overview

Our Business

Hudson's Bay Company is one of the fastest-growing department store retailers in the world, based on its successful formula of driving the performance of high quality stores and their all-channel offerings, unlocking the value of real estate holdings and growing through acquisitions. Founded in 1670, HBC is the oldest company in North America.

The closing of the Kaufhof Acquisition represents a major step in HBC's journey to become a global world class retailer. The addition of the HBC Europe's banners across two countries in Europe further strengthens HBC's retail portfolio, and provides a platform for further growth. With the recent completion of the Kaufhof Acquisition, HBC's portfolio today includes nine banners, in formats ranging from luxury to better department stores to off price, with more than 460 stores and 65,000 employees around the world.

HBC has significant investments in real estate joint ventures. It has partnered with Simon in the HBS Joint Venture, which owns properties in the United States and Germany. In Canada, it has partnered with RioCan in the RioCan-HBC JV.

In North America, HBC's leading banners include Hudson's Bay, Lord & Taylor, Saks Fifth Avenue and Saks OFF 5TH, along with Find @ Lord & Taylor and Home Outfitters. In Europe, its banners include GALERIA Kaufhof, the largest department store group in Germany, Belgium's only department store group GALERIA Inno, as well as Sportarena.

We intend to continue to grow our retail sales primarily through the following strategies:

- *Driving Growth Across All Channels.* We are focused on driving growth both within and across our store and digital channels. We are building our capabilities and enhancing our store experience to allow our customers to shop seamlessly across stores and digital and believe that serving our customers across all channels results in increased spend and loyalty. We are also strengthening our digital presence through our digital business, our team that manages digital commerce and marketing strategy and execution for our digital brands, and continuing to differentiate our store merchandise and experience to grow these channels.

- *Expanding Our Off-Price Business.* We have refined the OFF 5TH business model to offer more national brands at a clearer value proposition in an easier-to-shop environment. We intend to accelerate the pace of new store openings and have introduced a larger OFF 5TH format.

- *Bringing Saks Fifth Avenue and OFF 5TH to Canada.* We intend to leverage our existing Canadian infrastructure, institutional knowledge and experience to efficiently and effectively bring Saks Fifth Avenue and OFF 5TH to Canada. We believe there is an opportunity to open up to seven Saks Fifth Avenue stores and up to 25 OFF 5TH stores in Canada over the coming years, with the first full-line and OFF 5TH stores planned to open in 2016.

In addition, we believe there is an opportunity to realize significant operating margin improvements through the following initiatives:

- *Saks Acquisition Synergies.* The Company has realized $91 million of the targeted annualized Saks Acquisition synergies of approximately $100 million by Fiscal 2016 in a variety of areas, including (i) administration and other shared services; (ii) store expenses; (iii) information technology infrastructure; and (iv) gross profit enhancements.

- *Operating Expense Management.* We will continue to aggressively manage our operating expenses and leverage our significantly increased scale to optimize costs.

- *Gross Profit Enhancements.* We will continue to work to increase our gross profit through (i) upgrading technology to better plan, buy and allocate merchandise; and (ii) using our evolving digital commerce fulfillment functionalities to optimize inventory productivity across each banner.

Real estate strategy

In addition to successfully operating and integrating our retail business and banners, the Company has demonstrated a history of surfacing and leveraging value from its substantial real estate holdings, which also serves to strengthen the Company's balance sheet and operating business. Previous transactions and initiatives include the 2011 sale of the Zellers leases for $1.8 billion, along with the sale and leaseback of the Queen Street property in Toronto for $650 million and the U.S.$1.25 billion mortgage financing of the ground portion of the Saks Fifth Avenue flagship property in New York City in Fiscal 2014.

On July 9, 2015, the Company and RioCan closed the first tranche of the RioCan-HBC JV transaction. On November 25, 2015, the Company announced the closing of the second tranche of the RioCan-HBC JV which included three additional ground lease properties, being the YSS Properties, totaling 735,926 square feet at an estimated transaction value of $379 million.

On July 22, 2015, the Company and Simon closed the HBS Joint Venture transaction. On September 30, 2015, Simon contributed an additional U.S.$178 million towards the acquisition of the Kaufhof Property Business. On November 17, 2015, the Company announced the sale of a portion of its equity investment in the HBS Joint Venture for proceeds of U.S.$533 million to three new third party investors. Proceeds from the equity sale, together with cash on hand, were used to reduce the Company's outstanding U.S. Term Loan B from U.S.$1,085 million to U.S.$500 million. The total third party investment of U.S.$533 million values the HBS Joint Venture's portfolio at approximately U.S.$4.5 billion based on a blended capitalization rate of 5.90%.

All of these events further support our strategy of unlocking the value of our real estate portfolio.

The joint ventures create new growth platforms for the Company; real estate in the United States, Canada and internationally. We believe these joint ventures to be the optimal structures to fund the expansion of our real estate portfolio. It is expected that future property acquisitions will diversify the asset portfolios and tenant base of each joint venture and create additional value for our shareholders. Importantly, the transactions are structured to facilitate an IPO or other monetization transaction of each joint venture at a future date. See the "Real Estate Joint Ventures ("Joint Ventures")" section of this MD&A.

Highlights of the thirteen week period ended October 31, 2015

- Retail sales, which include digital commerce sales from all banners, were $2,566 million for the thirteen week period ended October 31, 2015, an increase of $653 million or 34.1% from $1,913 million for the thirteen week period ended November 1, 2014.

- Consolidated same store sales increased by 12.9% and on a constant currency basis by 2.0% over the comparable thirteen week period in Fiscal 2014. On a constant currency basis, same store sales increased by 5.1% at DSG and on a local currency basis, decreased by 3.6% at Saks Fifth Avenue and increased by 2.8% and 6.6% at OFF 5TH and HBC Europe, respectively.

- Digital commerce sales increased by 23.9% on a constant currency basis over the thirteen week period ended November 1, 2014, reflecting the Company's continued strategic focus on growing this channel.

- Gross profit rate was 41.9% of retail sales, or an 80 basis point improvement over the thirteen week period ended November 1, 2014.

- Adjusted EBITDAR was $272 million compared to $182 million for the third quarter of Fiscal 2014, an increase of $90 million. As a percentage of retail sales, Adjusted EBITDAR was 10.6% compared to 9.5% for the third quarter of Fiscal 2014.

- Adjusted EBITDA was $160 million compared to $116 million for the third quarter of Fiscal 2014, an increase of $44 million. As a percentage of retail sales, Adjusted EBITDA was 6.2% compared to 6.1% for the third quarter of Fiscal 2014.

- Net Earnings were $1 million in the thirteen week period ended October 31, 2015 compared to a Net Loss of $13 million for the thirteen week period ended November 1, 2014, a net increase of $14 million.

Highlights of the thirty-nine week period ended October 31, 2015

- Retail sales, which include digital commerce sales from all banners, were $6,676 million for the thirty-nine week period ended October 31, 2015, an increase of $1,139 million or 20.6% from $5,537 million for the thirty-nine week period ended November 1, 2014.

- Consolidated same store sales increased by 12.9% and on a constant currency basis by 2.9% over the comparable thirty-nine week period in Fiscal 2014. On a constant currency basis, same store sales increased by 5.0% at DSG and on a local currency basis, decreased by 0.9% at Saks Fifth Avenue and increased by 8.3% and 6.6% at OFF 5TH and HBC Europe, respectively.

- Digital commerce sales increased by 25.5% on a constant currency basis over the thirty-nine week period ended November 1, 2014, reflecting the Company's continued strategic focus on growing this channel.

- Gross profit rate was 41.0% of retail sales, or a 120 basis point improvement over the thirty-nine week period ended November 1, 2014. Adjusting for the negative impacts associated with the amortization of inventory related purchase accounting adjustments in the current and prior year, the comparable gross profit rate was realized at a 60 basis point improvement when compared to the prior year.

- Adjusted EBITDAR was $577 million compared to $485 million for the thirty-nine week period ended November 1, 2014, an increase of $92 million. As a percentage of retail sales, Adjusted EBITDAR was 8.6% compared to 8.8% for the thirty-nine week period ended November 1, 2014.

- Adjusted EBITDA was $322 million compared to $294 million for the thirty-nine week period ended November 1, 2014, an increase of $28 million. As a percentage of retail sales, Adjusted EBITDA was 4.8% compared to 5.3% for the thirty-nine week period ended November 1, 2014.

- Net Earnings were $14 million in the thirty-nine week period ended October 31, 2015 compared to $127 million for the thirty-nine week period ended November 1, 2014, a decrease of $113 million.

Factors Affecting Our Performance

Retail Sales

The majority of our sales are from branded merchandise purchased directly from the brand owners or their licensees. We focus on offering a broad selection of branded and private-label merchandise appealing to the fashion taste of our customers. The quality and breadth of our selection allow us to change the mix of our merchandise based on fashion trends and individual store locations, and enable us to address a broad customer base.

Same Store Sales

The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months and includes online sales and clearance store sales. Stores undergoing remodeling remain in the same store sales calculation base unless the store is closed for a significant period of time. Effective Fiscal 2015, the calculation for same store sales for our operating segments DSG, Saks Fifth Avenue, OFF 5TH and HBC Europe excludes sales related accounting adjustments. In calculating the same store sales change on a constant currency basis, prior year foreign exchange rates are applied to both current year and prior year same store sales. This enhances the ability to compare underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations. Same Store Sales results disclosed under “Summary of Consolidated Quarterly Results” reflect this revised approach since the second quarter of Fiscal 2015. Definitions and calculations of same store sales differ among companies in the retail industry.

Gross Profit

Our cost of sales consists mainly of merchandise purchases, including transportation and distribution costs. Purchases are variable and proportional to our sales volume. We record vendor rebates as a reduction of inventory cost. All costs directly associated with transportation and distribution, excluding central storage costs and any idle capacity, are capitalized as merchandise inventories.

We work to manage gross margin in a number of different ways. We manage the level of promotional activity relative to regular price activity and manage inventory levels to minimize the need for substantial clearance activity. We source private-label products and directly import certain branded products from overseas markets including, among others, China, India, Indonesia, Bangladesh, Vietnam, Cambodia and Europe. As a result, our cost of sales for our Canadian operations is impacted by the fluctuation of foreign currencies against the Canadian dollar. In particular, we purchase a significant amount of our imported merchandise from suppliers in Asia using U.S. dollars. Therefore, our cost of sales is impacted by the fluctuation of the U.S. dollar against the Canadian dollar.

We enter into forward contracts to hedge some of our exposure to fluctuations in the value of the U.S. dollar against the Canadian dollar. Increases in the price of merchandise, raw materials, fuel and labour, or their reduced availability, could increase our cost of goods and negatively impact our financial results. Generally, we offset these cost increases with pricing adjustments in order to maintain a consistent mark-up on the merchandise, which might cause changes in our unit volume but typically has a minimal impact on our gross profit rates.

Going forward, the inclusion of HBC Europe is expected to impact HBC's gross profit and expense margins. The cost structure in Europe is such that gross profit margins are generally higher than those experienced in North America. This is in turn offset by higher SG&A expense, driven in part by increased labour costs as a result of the prevalence of unions and other worker related councils. As such, the corresponding gross profit rates reported by HBC going forward will not be directly comparable to historical results.

Foreign Exchange

Our net investments in Lord & Taylor Acquisition Inc. ("L&T Acquisition"), the indirect parent of Lord & Taylor and Saks, and HBC Europe, whose functional currencies are U.S. dollars and Euros respectively, presents a foreign exchange risk to HBC, whose functional currency is Canadian dollars. Since the Saks Acquisition, the Company was using a net investment hedge to mitigate the L&T Acquisition foreign exchange risk. The Company had designated U.S.$800 million of the U.S.$2,000 million senior secured term loan facility with Bank of America, N.A., as an administrative agent, (the "Senior Term Loan B"), as a hedge of the first U.S.$800 million of net assets of L&T Acquisition. In Fiscal 2014, the hedge was subsequently reduced to U.S.$350 million upon pay down of certain debt, and further to nil, upon pay down of a portion of the Senior Term Loan B. The Senior Term Loan B was repaid in full during the Company's second quarter of Fiscal 2015 using proceeds from the joint ventures which resulted in the disposal of the hedging instrument previously designated as part of the net investment hedge.

Foreign currency translation of the net earnings (loss) of L&T Acquisition impacts consolidated Net Earnings (Loss). Foreign currency translation of the Company's investments in L&T Acquisition and HBC Europe impact other comprehensive (loss) income.

Foreign currency gains and losses on certain intra group monetary liabilities between group entities with different functional currencies affect the Company's consolidated Net Earnings (Loss).

Selling, General & Administrative Expenses ("SG&A")

Our SG&A consists of store labour and maintenance costs, store occupancy costs, advertising and marketing costs, salaries and related benefits of corporate and field management associates, administrative office expenses, services purchased and other related expenses. SG&A includes buying and occupancy costs and excludes transportation and distribution centre costs included in inventory and cost of sales. It also includes pension, restructuring and other non-recurring items and excludes depreciation and amortization expenses. Although our average hourly wage rate is higher than the minimum wage, an increase in the mandated minimum wage could significantly increase our payroll costs unless we realize offsetting productivity gains and cost reductions.

Our occupancy costs are driven primarily by rent expense, which may include escalation clauses over existing lease terms, including option periods. We believe that our existing leases are generally consistent with current market rates. When entering into new leases, we are generally able to negotiate leases at attractive market rates due to the increased consumer traffic that our stores generate in strip malls and shopping centres.

Under our legacy credit agreements, we earned royalty payments from credit card issuers based on the total of Company and other sales charged to either the Private Label Credit Cards ("PLCC") or MasterCard. Royalty rates changed based on the year-to-date credit volume of out-of-store credit card sales. We also received bounty payments from credit card issuers for each approved PLCC or MasterCard account. Bounty and royalty payments were recognized based on expected or actual performance over the life of the credit card agreements. With respect to the legacy credit agreement for Saks, the Company earned a blend of royalty payments, bounty payments and shared in the income and losses of the legacy credit program. In addition, pursuant to a servicing agreement with a credit card issuer, the Company received compensation for providing key customer service functions including new account openings, transaction authorizations, billing adjustments and customer inquiries. All credit card revenues related to

the legacy credit agreements are included as a reduction of SG&A in our financial statements. We had no risk of credit loss on the credit card receivables in the underlying portfolio.

Effective January 1, 2015, we entered into a new credit card program that has replaced our legacy credit card programs. Under this program, we share in the income and losses of the credit card program related to private label and co-branded credit cards at Hudson's Bay, Lord & Taylor and Saks. The new credit card program was effective as of January 1, 2015 with respect to Hudson's Bay and Saks. In June 2015, we completed the transition to include Lord & Taylor's active participation to the program. Income related to the new program is included in SG&A.

Finance Costs

Our finance costs are expenses derived from the financing activities of the Company, including interest expense on long and short-term borrowings, gains or losses on the early extinguishment of debt and fair value gains or losses and amortization charges related to embedded derivatives. In addition to credit ratings and credit spreads, our finance costs are dependent on fluctuations in the underlying indexes used to calculate interest rates, including, but not limited to the Canadian prime rate, the Canadian Dealer Offered Rate and the London Interbank Offered Rate.

In connection with the Saks Acquisition, we issued Common Share purchase warrants to H.S. Investment L.P. ("HSILP"), an affiliate of Ontario Teachers' Pension Plan, and to West Face Long Term Opportunities Global Master L.P., a fund advised by West Face Capital Inc. The non-cash charges associated with the warrants fluctuate with changes in the Common Share price and other factors, as they require mark-to-market adjustments each reporting period. We record the mark-to-market valuation adjustment of these warrants as finance costs (income) based on their end-of-period valuations.

Weather

Extreme weather conditions in the areas in which the Company's stores are located could adversely affect the Company's business and results of operations. For example, frequent or unusually heavy snowfall, ice storms, rainstorms, earthquakes, or other extreme weather conditions over a prolonged period could make it difficult for the Company's customers to travel to its stores and thereby reduce the Company's sales and profitability. The Company's business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could result in lower sales and more promotional activity to clear merchandise at the end of the season. Reduced sales from extreme or prolonged unseasonable weather conditions could materially and adversely affect the Company's business and results of operations.

Competition

The Company conducts its retail merchandising business under highly competitive conditions. Although the Company is one of North America, Germany and Belgium's largest retailers, it has numerous and varied competitors at the international, national and local levels, including conventional and specialty department stores, other specialty stores, mass merchants, value retailers, discounters, and internet and mail-order retailers. Competition may intensify as new competitors enter into the markets in which our banners operate including U.S. competitors entering into the Canadian market, competitors to HBC Europe entering the German or Belgium markets and/or if our competitors enter into business combinations or alliances. Competition is characterized by many factors, including assortment, advertising, price, quality, service, location, reputation and credit availability. If the Company does not compete effectively with regard to these factors, its business and results of operations could be materially and adversely affected.

Consumer Trends

The fashion and retail industries are subject to sudden shifts in consumer trends and consumer spending. The Company's sales and operating results depend, in part, on its ability to predict or respond to changes in fashion trends and consumer preferences in a timely manner. The Company develops new retail concepts and continuously adjusts its market positioning in branded and private-label merchandise and product categories in an effort to satisfy customer demand. Any sustained failure to anticipate, identify and respond to emerging trends in lifestyle and consumer preferences could have a material adverse effect on the Company's business and results of operations. Consumers' discretionary spending impacts the Company's sales and may be affected by many factors outside of the Company's control, including general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, the costs of basic necessities and other goods, and the effects of weather or natural disasters.

Seasonality

The quarterly sales and earnings of the Company are significantly impacted by customer sales patterns. As a result, sales in the fiscal fourth quarter, due to the holiday shopping season, represent a much greater portion of our annual sales volume and a substantial portion of our annual earnings. We generate approximately one-third of our sales during the fourth quarter of each fiscal year due to the Christmas and holiday shopping season.

Selected Consolidated Financial Information

The following tables set out summary unaudited consolidated financial information and supplemental information for the periods indicated. The summary financial information set out below has been derived from unaudited interim condensed consolidated financial statements, prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting, for the thirteen and thirty-nine week periods ended October 31, 2015. The unaudited financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2014. In the opinion of our management, such unaudited financial data reflects all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year or any future period.

(millions of Canadian dollars except per share amounts)	Thirteen week period ended				Thirty-nine week period ended			
	October 31, 2015		November 1, 2014		October 31, 2015		November 1, 2014	
	$	% [(1)]	$	% [(1)]	$	% [(1)]	$	% [(1)]
Earnings Results								
Retail sales	2,566	100.0%	1,913	100.0%	6,676	100.0%	5,537	100.0%
Cost of sales	(1,492)	(58.1%)	(1,126)	(58.9%)	(3,938)	(59.0%)	(3,334)	(60.2%)
Gross profit	1,074	41.9%	787	41.1%	2,738	41.0%	2,203	39.8%
Selling, general & administrative expenses	(1,012)	(39.5%)	(690)	(36.0%)	(2,567)	(38.5%)	(2,023)	(36.5%)
Depreciation and amortization	(110)	(4.3%)	(84)	(4.4%)	(311)	(4.6%)	(247)	(4.5%)
Gain on contribution of assets to joint ventures	—	—	—	—	133	2.0%	—	—
Gain on Queen Street Sale	—	—	—	—	—	—	308	5.5%
Operating (loss) income	(48)	(1.9%)	13	0.7%	(7)	(0.1%)	241	4.3%
Finance costs, net	(29)	(1.1%)	(47)	(2.5%)	(128)	(1.9%)	(151)	(2.7%)
Share of net loss in joint ventures	(64)	(2.5%)	—	—	(71)	(1.1%)	—	—
Dilution gain from investment in the HBS Joint Venture	148	5.8%	—	—	148	2.2%	—	—
Earnings (Loss) before income tax	7	0.3%	(34)	(1.8%)	(58)	(0.9%)	90	1.6%
Income tax (expense) benefit	(6)	(0.2%)	21	1.1%	72	1.1%	37	0.7%
Net Earnings (Loss)	1	0.1%	(13)	(0.7%)	14	0.2%	127	2.3%
Net Earnings (Loss) per Common Share – basic	0.01		(0.07)		0.07		0.70	
Net (Loss) Earnings per Common Share – diluted	(0.07)		(0.07)		0.01		0.70	
Weighted average Common Shares outstanding - basic (millions)	182		182		182		182	
Weighted average Common Shares outstanding - diluted (millions)	186		182		187		182	
Supplemental Information								
EBITDA [(2)]	75	2.9%	108	5.6%	208	3.1%	211	3.8%
Adjusted EBITDAR [(2)]	272	10.6%	182	9.5%	577	8.6%	485	8.8%
Adjusted EBITDA [(2)]	160	6.2%	116	6.1%	322	4.8%	294	5.3%
Normalized Net (Loss) Earnings for the period [(2)]	(7)	(0.3%)	3	0.2%	(93)	(1.4%)	(52)	(0.9%)
Normalized Net (Loss) Earnings per Common Share – basic [(2)]	(0.04)		0.02		(0.51)		(0.29)	
Normalized Net (Loss) Earnings per Common Share – diluted [(2)]	(0.04)		0.02		(0.50)		(0.29)	
Declared dividend per Common Share	0.05		0.05		0.15		0.15	

	Thirteen week period ended		Thirty-nine week period ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Reported Consolidated Retail Sales Percentage Change	34.1%	94.4%	20.6%	96.6%
Same Store Sales Percentage Change [3]				
Consolidated	12.9%	7.1%	12.9%	6.9%
Consolidated (constant currency basis)	2.0%	2.7%	2.9%	2.5%
DSG [4]	5.1%	1.4%	5.0%	1.0%
Saks Fifth Avenue [5]	(3.6%)	1.3%	(0.9%)	1.4%
OFF 5TH [5]	2.8%	19.2%	8.3%	16.6%
HBC Europe [6]	6.6%	N/A	6.6%	N/A
Store Information				
Store count [7]				
Hudson's Bay	90	90		
Lord & Taylor	50	50		
Saks Fifth Avenue	38	39		
OFF 5TH	91	80		
Home Outfitters	63	69		
HBC Europe	134	N/A		
Total	466	328		
Gross leasable area/Square footage (thousands) [7]				
Hudson's Bay	16,006	16,123		
Lord & Taylor	6,898	6,898		
Saks Fifth Avenue	4,741	4,795		
OFF 5TH	2,621	2,199		
Home Outfitters	2,257	2,515		
HBC Europe	16,888	N/A		
Total	49,411	32,530		

Balance Sheet Data	October 31, 2015	November 1, 2014 [8]	January 31, 2015
	$	$	$
Cash	292	44	168
Trade and other receivables	370	128	212
Inventories	3,938	2,578	2,349
Current assets	4,773	2,926	2,829
Property, plant and equipment	4,797	4,111	4,606
Intangible assets	1,545	976	1,076
Goodwill	244	210	237
Investment in joint ventures [9]	600	—	—
Total assets	12,297	8,541	9,072
Current liabilities [10]	2,924	1,858	1,803
Loans and borrowings (including current portion)	3,896	3,037	2,969
Finance leases (including current portion)	503	139	155
Investment in the RioCan-HBC JV [9]	47	—	—
Other liabilities (including current portion) [11]	1,013	549	745
Shareholders' equity	2,504	2,175	2,492

Notes:

(1) As a percentage of retail sales.

(2) See below for relevant definitions and tables for a reconciliation of Net Earnings (Loss) to EBITDA, Adjusted EBITDAR and Adjusted EBITDA and a reconciliation of Net Earnings (Loss) to Normalized Net (Loss) Earnings.

(3) The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months and includes digital commerce sales and clearance store sales. The calculation for same store sales excludes sales related accounting adjustments for DSG, Saks Fifth Avenue, OFF 5TH and HBC Europe. Consolidated same store sales include results for all banners.

(4) Includes Home Outfitters for Fiscal 2014 (see "General Information") and is calculated on a constant currency basis.

(5) Same store sales of Saks Fifth Avenue and OFF 5TH are calculated in U.S. dollars.

(6) Same store sales of HBC Europe are calculated in Euros and are included from the Kaufhof Acquisition Date.

(7) Hudson's Bay Company operates two Hudson's Bay outlets, two Zellers clearance centers and four Lord & Taylor outlets that are excluded from the store count and gross leasable area.

(8) Restated for measurement period adjustments related to the Saks Acquisition based on new information relating to deferred taxes. Please see note 4 of unaudited interim condensed consolidated financial statements for thirteen and thirty-nine week periods ended October 31, 2015.

(9) See 'Real Estate Joint Ventures' section.

(10) Excludes current loans and borrowings of $582 million as at October 31, 2015, $672 million as at November 1, 2014 and $246 million as at January 31, 2015; current other liabilities of $69 million as at October 31, 2015, $32 million as at November 1, 2014 and $76 million as at January 31, 2015; and current finance leases of $33 million as at October 31, 2015, $17 million as at November 1, 2014 and $19 million as at January 31, 2015.

(11) Includes deferred landlord incentives of $481 million as at October 31, 2015, $240 million as at November 1, 2014 and $356 million as at January 31, 2015.

The following table shows the reconciliation of Net Earnings (Loss) to EBITDA, Adjusted EDITDAR as well as Adjusted EBITDA:

(millions of Canadian dollars)	Thirteen week period ended		Thirty-nine week period ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
	$	$	$	$
Net Earnings (Loss)	1	(13)	14	127
Finance costs, net	29	47	128	151
Income tax expense (benefit)	6	(21)	(72)	(37)
Share of net loss in joint ventures	64	—	71	—
Gain on contribution of assets to joint ventures	—	—	(133)	—
Gain on Queen Street Sale [(1)]	—	—	—	(308)
Dilution gain from investment in the HBS Joint Venture [(2)]	(148)	—	(148)	—
Non-cash pension expense	7	6	20	20
Depreciation and amortization	110	84	311	247
Share based compensation	6	5	17	11
EBITDA	**75**	108	**208**	211
Normalization and rent adjustments				
Saks Acquisition and integration related expenses	7	14	22	49
Kaufhof Acquisition transaction costs	70	—	79	—
Joint ventures transaction costs	3	—	35	—
Amortization of inventory purchase price accounting adjustments [(3)]	6	—	6	40
Foreign exchange adjustment [(4)]	(21)	—	(47)	—
Restructuring and other	10	(6)	9	(6)
North American realignment initiative [(5)]	25	—	25	—
Net rent expense to joint ventures [(6)]	3	—	4	—
Third party rent expense	94	66	236	191
Total normalizing and rent adjustments	197	74	369	274
Adjusted EBITDAR	**272**	182	**577**	485
Third party rent expense	(94)	(66)	(236)	(191)
Cash rent to joint ventures	(70)	—	(78)	—
Cash distributions from joint ventures	52	—	59	—
Adjusted EBITDA	**160**	116	**322**	294

The following table shows the reconciliation of SG&A to Normalized SG&A and Legacy SG&A:

(millions of Canadian dollars)	Thirteen week period ended		Thirty-nine week period ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
	$	$	$	$
SG&A	1,012	690	2,567	2,023
Non-cash pension expense	(7)	(6)	(20)	(20)
Share based compensation	(6)	(5)	(17)	(11)
Saks Acquisition and integration related expenses	(7)	(14)	(22)	(49)
Kaufhof Acquisition transaction costs	(70)	—	(79)	—
Joint ventures transaction costs	(3)	—	(35)	—
Foreign exchange adjustment [4]	21	—	47	—
Restructuring and other	(10)	6	(9)	6
North American realignment initiative [5]	(25)	—	(25)	—
Total normalizing adjustments	(107)	(19)	(160)	(74)
Normalized SG&A	**905**	671	**2,407**	1,949
HBC Europe related SG&A	(148)	—	(148)	—
Net rent expense to joint ventures [6]	(3)	—	(4)	—
Total adjustments [7]	(258)	(19)	(312)	(74)
Legacy SG&A	**754**	671	**2,255**	1,949
Legacy SG&A constant currency basis	673	671	2,049	1,949
Legacy Retail Sales constant currency basis	1,942	1,913	5,703	5,537
Legacy SG&A as a percentage of Legacy Retail Sales	**34.7%**	35.1%	**35.9%**	35.2%

Notes:

(1) Realigned from normalization adjustments in prior year presentation to EBITDA in the current year.

(2) Represents the gain realized as a result of change in ownership related to the Company's investment in the HBS Joint Venture.

(3) Relating to the Saks Acquisition in the prior year and the Kaufhof Acquisition in the current year.

(4) Represents the impact of unrealized gains related to the translation of U.S. dollar and Euro denominated asset and liability balances.

(5) Represents costs associated with the implementation of the Company's North American operations realignment initiative announced on September 29, 2015.

(6) Rent expense to the joint ventures net of reclassification of rental income related to the Company's ownership interest in the joint ventures (see note 10 to the unaudited interim condensed consolidated financial statement for the thirteen and thirty-nine week periods ended October 31, 2015).

(7) Total adjustments equal total normalizing adjustments plus HBC Europe related SG&A and net rent expense to joint ventures.

The following table shows the reconciliation of Net Earnings (Loss) to Normalized Net (Loss) Earnings:

(millions of Canadian dollars)	Thirteen week period ended October 31, 2015	Thirteen week period ended November 1, 2014	Thirty-nine week period ended October 31, 2015	Thirty-nine week period ended November 1, 2014
	$	$	$	$
Net Earnings (Loss)	**1**	(13)	**14**	127
Normalization Adjustments [1]				
Gain on contribution of assets to joint ventures	—	—	(107)	—
Gain on Queen Street Sale	—	—	—	(261)
Dilution gain from investment in the HBS joint venture	(91)	—	(91)	—
Saks Acquisition and integration related expenses and finance costs [2]	(10)	21	2	41
Kaufhof Acquisition transaction costs	67	—	73	—
Joint ventures transaction costs	2	—	23	—
Restructuring and other	7	(5)	5	(5)
North American realignment initiative	16	—	16	—
Financing related adjustments [3]	—	—	13	22
Amortization of inventory purchase price accounting adjustments [4]	4	—	4	24
Foreign exchange adjustment [5]	(22)	—	(44)	—
Adjustments to share of net loss from joint ventures [6]	19	—	19	—
Tax related adjustments [7]	—	—	(20)	—
Total normalizing adjustments	(8)	16	(107)	(179)
Normalized Net (Loss) Earnings	**(7)**	3	**(93)**	(52)

Notes:

(1) Net of tax as appropriate.

(2) Includes the recognition of non-cash finance income (costs) related to Common Share purchase warrants of $15 million and $12 million for the thirteen and thirty-nine week periods ended October 31, 2015, respectively (November 1, 2014: ($12) million and ($9) million, respectively).

(3) Includes write-off of deferred financing costs and in the prior year penalties on early extinguishment of debt.

(4) Relating to the Saks Acquisition in the prior year and the Kaufhof Acquisition in the current year.

(5) Represents the impact of unrealized gains related to the translation of U.S. dollar and Euro denominated asset and liability balances.

(6) Relates to the Company's share of non-recurring transaction costs and foreign exchange related gains and losses incurred by the HBS Joint Venture.

(7) Relates to capital loss realized upon repayment of U.S. dollar denominated debt.

EBITDA is a non-IFRS measure that we use to assess our operating performance. EBITDA is defined as Net Earnings (Loss) before finance costs, income tax (expense) benefit, share of net loss in joint ventures, the gain on contribution of assets to joint ventures, gain on contribution of assets to joint ventures, the gain on Queen Street Sale, dilution gain from investments in Joint Ventures, and non-cash pension expense, depreciation and amortization expense, and non-cash share based compensation expense. EBITDAR is defined as EBITDA before rent expense to third parties and net rent expense to joint ventures.

Adjusted EBITDAR is defined as EBITDAR adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; and (iii) normalizing and rent adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations. Adjusted EBITDA is defined as Adjusted EBITDAR less rent to third parties, less cash rent to the joint ventures plus cash distributions from the joint ventures. Normalized Net (Loss) Earnings is defined as Net Earnings (Loss) adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; (iii) normalizing adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations. Normalized SG&A is defined as SG&A adjusted to exclude: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses; (iii) normalizing adjustments, if any, related to transactions that are not associated with day-to-day operations. In addition, for comparative purposes, we are introducing Legacy SG&A which is defined as Normalized SG&A less HBC Europe related SG&A and net rent expense to joint ventures.

We have included EBITDA, Adjusted EBITDAR, Adjusted EBITDA, Normalized Net (Loss) Earnings, Normalized SG&A and Legacy SG&A to provide investors and others with supplemental measures of our operating performance. We believe EBITDA, Adjusted EBITDAR, Adjusted EBITDA, Normalized Net (Loss) Earnings, Normalized SG&A and Legacy SG&A are important supplemental measures of operating performance because they eliminate items that have less bearing on our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors, rating agencies and other interested parties frequently use EBITDA, Adjusted EBITDAR, Adjusted EBITDA, Normalized Net (Loss) Earnings and Normalized SG&A in the evaluation of issuers, many of which present similar metrics when reporting their results. Our management also uses Adjusted EBITDA in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our future debt service, capital expenditure and working capital requirements and our ability to pay dividends on our shares. As other companies may calculate EBITDA, Adjusted EBITDAR, Adjusted EBITDA, Normalized Net (Loss) Earnings or Normalized SG&A differently than we do, these metrics are not comparable to similarly titled measures reported by other companies.

Results of Operations

Thirteen Week Period Ended October 31, 2015 Compared to the Thirteen Week Period Ended November 1, 2014

Retail Sales

Retail sales, which include digital commerce sales from all banners, were $2,566 million for the thirteen week period ended October 31, 2015, an increase of $653 million or 34.1% from $1,913 million for the thirteen week period ended November 1, 2014. The majority of the increase is related to the inclusion of HBC Europe retail sales following the Kaufhof Acquisition Date, combined with strong results at DSG. Currency improvements on the translation of U.S. dollar denominated sales further enhanced sales at DSG and Saks in the quarter.

Consolidated same store sales increased by 12.9% and on a constant currency basis by 2.0% over the comparable thirteen week period in Fiscal 2014. On a constant currency basis, same store sales increased by 5.1% at DSG and on a local currency basis, decreased by 3.6% at Saks Fifth Avenue and increased by 2.8% and 6.6% at OFF 5TH and HBC Europe, respectively.

Digital commerce sales increased by 23.9% on a constant currency basis over the thirteen week period ended November 1, 2014, reflecting the Company's continued strategic focus on growing this channel.

In terms of merchandise category performance, sales growth at DSG was driven by home products, menswear, ladies apparel and cosmetics. Sales decline at Saks Fifth Avenue was driven by ladies apparel offset by a growth in cosmetics; while at OFF 5TH, sales growth was driven by women’s shoes, women’s handbags and menswear. At HBC Europe, ladies apparel and beauty products led the merchandise sales growth during the period following the Kaufhof Acquisition Date.

Gross Profit

Gross profit was $1,074 million for the thirteen week period ended October 31, 2015, compared to $787 million for the thirteen week period ended November 1, 2014. The increase was primarily related to the inclusion of HBC Europe following the Kaufhof Acquisition Date. Improved volume performance at DSG and Saks, combined with additional improvements in gross profit dollars as a result of favourable currency conversion on U.S. dollar denominated sales, resulted in further improvements in the quarterly gross profit.

Gross profit rate was 41.9% of retail sales, an 80 basis point improvement over the thirteen week period ended November 1, 2014. Improvements in the gross profit rate in the quarter can be attributed to the inclusion of HBC Europe, realizing gross profit rates in excess of Legacy HBC in the quarter. For additional discussion see “Factors Affecting our Performance – Gross Profit”.

Selling, General & Administrative Expenses

SG&A was $1,012 million for the thirteen week period ended October 31, 2015, compared to $690 million for the thirteen week period ended November 1, 2014. The majority of the increase is primarily attributable to the addition of HBC Europe related SG&A, and other one-time adjustments related to the Kaufhof Acquisition and the joint ventures. In addition, SG&A continues to be negatively impacted by the conversion of U.S. denominated expenses into Canadian dollars.

Legacy SG&A was $754 million compared to $671 million for the thirteen week period ended November 1, 2014, or an increase of $83 million.

Legacy SG&A exclusive of the impact of foreign exchange as a percentage of retail sales (excluding HBC Europe sales) was 34.7% in the third quarter of Fiscal 2015 compared to 35.1% for the prior year or an improvement of 40 basis points.

The current quarter's SG&A expenses continue to include the impact of incremental strategic investments in our HBC digital business, pre-opening costs associated with the introduction of Saks Fifth Avenue and OFF 5TH to Canada and accelerated OFF 5TH openings in the U.S. SG&A expenses in the thirteen week period ended October 31, 2015 also include the negative impact associated with the conforming change in the classification of advertising credits between SG&A and gross profit as they relate to the Saks business. The conforming change was adopted in the fourth quarter of Fiscal 2014. These strategic cost initiatives are partially offset by total operating synergies of $16 million (including $8 million related to the North American operations realignment initiative) realized in the third quarter of Fiscal 2015. Absent these identified items, Legacy SG&A expenses as a percentage of retail sales (excluding HBC Europe sales) were 34.2% compared to 35.1% for the prior year or an improvement of 90 basis points.

EBITDA, Adjusted EBITDAR and Adjusted EBITDA

EBITDA was $75 million in the thirteen week period ended October 31, 2015, compared to $108 million in the thirteen week period ended November 1, 2014, a decrease of $33 million.

Adjusted EBITDAR was $272 million compared to $182 million for the third quarter of Fiscal 2014, an increase of $90 million. As a percentage of retail sales, Adjusted EBITDAR was 10.6% compared to 9.5% for the third quarter of Fiscal 2014.

Adjusted EBITDA was $160 million, compared to $116 million in the thirteen week period ended November 1, 2014, an increase of $44 million. As a percentage of sales, Adjusted EBITDA margin was 6.2% in the third quarter of Fiscal 2015 compared to 6.1% in the third quarter of the prior year.

Finance Costs

Finance costs were $29 million in the thirteen week period ended October 31, 2015 compared to $47 million for the thirteen week period ended November 1, 2014, a decrease of $18 million. The decrease is primarily related to non-cash finance income generated by mark to market adjustments for the thirteen week period ended October 31, 2015 associated with the valuation of the Common Share purchase warrants outstanding.

Income Tax (Expense) Benefit

Income tax expense was $6 million in the thirteen week period ended October 31, 2015, compared to a benefit of $21 million for the thirteen week period ended November 1, 2014. The effective income tax rate for the thirteen-week period ended October 31, 2015 decreased from the thirteen-week period ended November 1, 2014 primarily due to the treatment of foreign exchange gains arising on foreign currency denominated debt in the current year and international tax rate differentials in the prior year.

Net Earnings (Loss)

Net Earnings were $1 million in the thirteen week period ended October 31, 2015 compared to a Net Loss of $13 million in the thirteen week period ended November 1, 2014, a net increase of $14 million. The increase is primarily due to the recognition of the after tax gain of $91 million in the quarter on the dilution of ownership in the HBS Joint Venture, improved finance costs, offset in part by one time charges related to the Kaufhof Acquisition and costs associated with the North American operations realignment initiative.

Normalized Net (Loss) Earnings

Normalized Net Loss was $7 million in the thirteen week period ended October 31, 2015 compared to Normalized Net Earnings of $3 million in the thirteen week period ended November 1, 2014, a net decrease of $10 million.

Thirty-nine Week Period Ended October 31, 2015 Compared to the Thirty-nine Week Period Ended November 1, 2014

Retail Sales

Retail sales, which include digital commerce sales from all banners, were $6,676 million for the thirty-nine week period ended October 31, 2015, an increase of $1,139 million or 20.6% from $5,537 million for the thirty-nine week period ended November 1, 2014. The increase is related to the inclusion of HBC Europe retail sales following the Kaufhof Acquisition Date combined with continued strong results at DSG and OFF 5TH. Comparative growth at DSG and Saks on a year to date basis was further enhanced by currency improvement on the translation of U.S. dollar denominated sales.

Consolidated same store sales increased by 12.9% and on a constant currency basis by 2.9% over the comparable thirty-nine week period in Fiscal 2014. On a constant currency basis, same store sales increased by 5.0% at DSG and on a local currency basis, decreased by 0.9% at Saks Fifth Avenue and increased by 8.3% and 6.6% at OFF 5TH and HBC Europe, respectively.

Digital commerce sales increased by 25.5% on a constant currency basis over the thirty-nine week period ended November 1, 2014, reflecting the Company's continued strategic focus on growing this channel.

In terms of merchandise category performance, sales growth at DSG was driven by menswear, home products, ladies apparel and cosmetics. Sales decline at Saks Fifth Avenue was driven by ladies apparel offset by a growth in cosmetics; while at OFF 5TH, sales growth was driven by women's shoes, women's handbags and menswear. At HBC Europe, ladies apparel and beauty products led the merchandise sales growth during the period following the Kaufhof Acquisition Date.

Gross Profit

Gross profit as reported was $2,738 million for the thirty-nine week period ended October 31, 2015, compared to $2,203 million for the thirty-nine week period ended November 1, 2014. Adjusting for the negative impact associated with the amortization of inventory related purchase accounting adjustments in the prior year of $40 million and $6 million related to HBC Europe in the current year, comparable gross profit improved by $501 million. Improved volume performance at DSG and Saks, the inclusion of HBC Europe gross profit for the month of October, combined with additional improvements in reported gross profit dollars as a result of favourable currency conversion on U.S. dollar denominated sales, resulted in overall improvements in the quarterly gross profit. For additional discussion see "Factors Affecting our Performance – Gross Profit".

Gross profit rate as reported was 41.0% of retail sales or a 120 basis point improvement over the thirty-nine week period ended November 1, 2014. On a comparable basis, gross profit as a percentage of retail sales of 41.1% improved by 60 basis points over the same comparable thirty-nine week period ended November 1, 2014. The majority of the improvement is the result of the inclusion of HBC Europe with gross profit rates in excess of Legacy

HBC banners who realized relatively flat gross profit rates during the thirty-nine week period ended October 31, 2015.

Selling, General & Administrative Expenses

SG&A as reported, was $2,567 million for the thirty-nine week period ended October 31, 2015, compared to $2,023 million for the thirty-nine week period ended November 1, 2014. The increase can be attributable to the addition of HBC Europe related SG&A, and other one-time adjustments related to the Kaufhof Acquisition and the joint ventures. In addition, SG&A continues to be negatively impacted by the conversion of U.S. denominated expenses into Canadian dollars.

Legacy SG&A was $2,255 million compared to $1,949 million for the thirty-nine week period ended November 1, 2014, or a $306 million increase.

Legacy SG&A exclusive of the impact of foreign exchange as a percentage of retail sales (excluding HBC Europe) was 35.9% for the thirty-nine week period ended October 31, 2015 compared to 35.2% for the thirty-nine week period ended November 1, 2014, or a decline of 70 basis points.

The current year SG&A expenses continue to include the impact of incremental strategic investments in our digital business, higher occupancy costs associated with the Queen Street Sale and pre-opening costs associated with the introduction of Saks Fifth Avenue and OFF 5TH to Canada and accelerated OFF 5TH openings in the U.S. SG&A in the thirty-nine week period ended October 31, 2015 also includes the negative impact associated with the conforming change in the classification of advertising credits between SG&A and gross profit as they relate to the Saks business. The conforming change was adopted in the fourth quarter of Fiscal 2014. These increases are partially offset by total operating synergies of $43 million (including $8 million related to the North American realignment initiative) realized in the thirty-nine week period ended October 31, 2015. Absent these items, Legacy SG&A expenses as a percentage of retail sales were 35.5% compared to 35.2% for the prior year, or a decline of 30 basis points.

Through the third quarter, the Company has realized $91 million of synergies related to the Saks Acquisition. In addition to being on track to achieve $100 million in synergies as part of the Saks Acquisition, the Company believes that there are opportunities for additional synergies and cost savings from further operational efficiencies due to our increased scale. The Company announced its North American operations realignment initiative which is expected to generate cost savings of approximately $75 million in Fiscal 2016. In the third quarter, the Company has realized reductions of $8 million.

EBITDA, Adjusted EBITDAR and Adjusted EBITDA

EBITDA was $208 million in the thirty-nine week period ended October 31, 2015, compared to $211 million in the thirty-nine week period ended November 1, 2014, a decrease of $3 million.

Adjusted EBITDAR was $577 million compared to $485 million for the thirty-nine week period ended November 1, 2014, an increase of $92 million. As a percentage of retail sales, Adjusted EBITDAR was 8.6% compared to 8.8% for the thirty-nine week period ended November 1, 2014.

Adjusted EBITDA was $322 million compared to $294 million in the thirty-nine week period ended November 1, 2014, an increase of $28 million. As a percentage of sales, Adjusted EBITDA was 4.8% compared to 5.3% in the prior year.

Finance Costs

Finance costs were $128 million in the thirty-nine week period ended October 31, 2015 compared to $151 million for the thirty-nine week period ended November 1, 2014, a decrease of $23 million. The decrease is primarily related to penalties of $12 million in connection with early repayment of debt in the prior year. This combined with non-cash finance income generated by mark to market adjustments associated with the valuation of

Common Share purchase warrants outstanding in the thirty-nine week period ended October 31, 2015 resulted in an overall reduction in finance costs.

Income Tax Benefit

Income tax benefit was $72 million for the thirty-nine week period ended October 31, 2015 compared to $37 million for the thirty-nine week period ended November 1, 2014. The effective income tax rate for the thirty-nine week period ended October 31, 2015 increased from the thirty-nine week period ended November 1, 2014 primarily due to the benefits of net foreign exchange losses related to the repayment of U.S. dollar denominated debt, which is partially offset by non-deductible transaction costs in the current year and the favourable tax treatment related to the Queen Street Sale in the prior year.

Net Earnings

Net Earnings were $14 million in the thirty-nine week period ended October 31, 2015 compared to $127 million in the thirty-nine week period ended November 1, 2014, a decrease of $113 million. The decrease is primarily the result of the inclusion of the after tax gain recognized on the Queen Street Sale of $261 million in the first quarter of Fiscal 2014 and one time charges in the current year related to the Kaufhof Acquisition, the joint ventures and costs associated with the North American realignment initiative. This was partially offset by improved finance costs and recognition of the gain on contribution of assets and dilution gain resulting from a change in HBC's ownership in the HBS Joint Venture in the current year.

Normalized Net Loss

Normalized Net Loss was $93 million in the thirty-nine week period ended October 31, 2015 compared to $52 million in the thirty-nine week period ended November 1, 2014, an increase in loss of $41 million.

Kaufhof Transaction

On September 30, 2015, HBC and the HBS Joint Venture completed the Kaufhof Acquisition by acquiring GALERIA Holding, the parent company of Germany's leading department store GALERIA Kaufhof and Belgium's only department store, GALERIA Inno, for a total purchase price of €2.3 billion. In conjunction with the Kaufhof Acquisition, the HBS Joint Venture acquired 41 Kaufhof properties.

The transaction was structured such that the Company effectively acquired the Kaufhof Operating Business for €709 million ($1.1 billion) while the HBS Joint Venture acquired the Kaufhof Property Business valued at €1.6 billion ($2.4 billion), in each case, for accounting purposes. The preliminary purchase price allocation for the transaction is as follows:

	HBC	HBS Joint Venture	**Total**
(millions of Euros)	Kaufhof Operating Business	Kaufhof Property Business	**GALERIA Holding**
Cash	214	152	**366**
Inventories	506	-	**506**
Property, plant and equipment	712	1,809	**2,521**
Intangible assets	356	103	**459**
Other acquired assets	136	43	**179**
Finance Leases	(157)	(17)	**(174)**
Provisions	(43)	(2)	**(45)**
Deferred tax liabilities	(32)	(181)	**(213)**
Pensions and employee benefits	(318)	(1)	**(319)**
Other assumed liabilities	(665)	(298)	**(963)**
Total identifiable net assets acquired and cash consideration given	**709**	**1,608**	**2,317**

The acquisition was financed in part by new real estate debt secured by 41 Kaufhof properties acquired by the HBS Joint Venture that had a transaction value of €2.6 billion ($4.0 billion). Additional financing for the transaction was provided by a new term loan at HBC and cash contributions by Simon to the HBS Joint Venture.

The Kaufhof Acquisition creates an international retail platform for the Company and provides the Company with an opportunity to grow internationally both through acquisitions and the eventual introduction of Saks Fifth Avenue and Saks OFF 5TH into the German market. The Kaufhof Acquisition also provides the Company with a strong foundation to explore additional strategic growth prospects throughout Europe allowing for HBC to continue moving forward into becoming a global world class retailer and in the process of doing so, creating additional value for our shareholders.

Real Estate Joint Ventures ("Joint Ventures")

The RioCan-HBC JV and the HBS Joint Venture have created new growth platforms for the Company. The joint ventures have mandates to acquire additional assets that are expected to diversify the portfolios and tenant base of each joint venture creating additional value for our shareholders.

On closing of the first tranche of the RioCan-HBC JV on July 9, 2015, HBC contributed 7 owned or ground leased properties (including Hudson's Bay flagship properties in downtown Vancouver, Calgary, Ottawa, and Montreal) with approximately 2.6 million square feet and valued at approximately $1.3 billion. RioCan contributed a 50% interest in two mall properties in Ontario (Oakville Place and Georgian Mall). HBC received $352 million in cash proceeds from new debt issued at the RioCan-HBC JV.

On November 25, 2015, the second tranche of the RioCan-HBC JV closed. On closing of the second tranche of the RioCan-HBC JV, the Company indirectly contributed three additional ground leased properties, being the YSS Properties, totaling 735,926 square feet, to the RioCan-HBC JV, with a value of approximately $379 million based on a capitalization rate of 5.26%. RioCan has committed to contribute a total of $325 million to the RioCan-HBC JV for an eventual pro forma equity stake of approximately 20%. The balance of these contributions will consist of $52.5 million in tenant allowances, and $125.4 million to be used to fund future property acquisitions to increase the value and diversify the tenant base of the RioCan-HBC JV. These contributions are expected to be made by the third anniversary of the first tranche closing date.

On August 4, 2015, HBC obtained a favourable court declaration and order from the Superior Court of Justice-Ontario which permitted the indirect contribution of the YSS Properties to the RioCan-HBC JV. This court order has been appealed by the related landlords. If the landlords' appeal is successful, HBC and RioCan have agreed to unwind HBC's capital contribution of the YSS Properties, in whole or in part, if required to protect the value of these assets.

The leases related to the YSS Properties were assessed and classified as operating leases. In the fourth quarter of Fiscal 2015, the Company will recognize a pre-tax gain on the contribution of the YSS Properties of approximately $28 million based on RioCan's interest in the RioCan-HBC JV after the closing of the second tranche. Additionally, as part of closing the second tranche of the RioCan-HBC JV, the Company's mortgage on the Yorkdale ground lease of approximately $47 million was assumed by an entity related to the RioCan-HBC JV and the remaining deferred financing costs were written off.

On closing of the HBS Joint Venture on July 22, 2015, the Company contributed 42 owned or ground leased properties, including the Saks Fifth Avenue Beverly Hills flagship and the Westchester and Manhasset Lord & Taylor stores, valued at approximately U.S.$1.7 billion. The contributed properties total approximately 5.4 million square feet. HBC received U.S.$600 million in cash proceeds from new debt issued at the HBS Joint Venture. Simon contributed an initial amount of U.S.$1 million upon closing and contributed an additional U.S.$179 million to the HBS Joint Venture as part of the acquisition of the Kaufhof Property Business. Simon is also committed to providing an additional U.S.$99 million to the HBS Joint Venture for improvements to properties contributed by HBC to the joint venture.

On November 17, 2015, the Company announced that it sold for total proceeds of U.S.$533 million a portion of its equity in the HBS Joint Venture, to three new third party investors. Proceeds from the equity sale, together with cash on hand, were used to reduce the Company's outstanding U.S. Term Loan B from U.S.$1,085 million to U.S.$500 million. The total third party investment of U.S.$533 million values the HBS Joint Venture's portfolio at approximately U.S.$4.5 billion based on a blended capitalization rate of 5.90%, and comprised of individual investments from the following entities:

- U.S.$250 million equity investment by Ivanhoé Cambridge;
- U.S.$150 million equity investment by Madison International Realty; and
- U.S.$133 million equity investment by a large U.S. pension.

In conjunction with the Kaufhof Acquisition, the HBS Joint Venture acquired 41 Kaufhof properties valued, for accounting purposes, of approximately €1.8 billion ($2.7 billion). This transaction was financed by a combination of a ten year real estate loan secured by the 41 properties, available cash held by the HBS Joint Venture and cash contributions by Simon and HBC.

The joint ventures have been established with dedicated management teams focused on overseeing the contributed properties and growing the portfolio, with support from HBC, Simon, RioCan and Ivanhoé Cambridge. RioCan-HBC JV's board of directors is comprised of four directors, two of whom have been appointed by each of HBC and RioCan. The HBS Joint Venture's board of directors is comprised of five directors, two of whom have been appointed by each of HBC and Simon and one of whom has been appointed by Ivanhoé Cambridge. Unanimous Board consent of HBC and Simon members is required for all major operating decisions.

RioCan-HBC JV

The following provides additional information relating to the RioCan-HBC JV, which, for greater certainty, excludes the indirect contribution of the YSS Properties for the periods indicated:

Condensed Statement of Earnings

(millions of Canadian dollars)	**Thirteen week period ended October 31, 2015**	**Period from July 9, 2015 (date of formation) to October 31, 2015**
Rental revenue	24	30
Property operating costs	(2)	(3)
Operating income	**22**	**27**
Depreciation and amortization	(8)	(10)
Earnings before finance costs	**14**	**17**
Finance costs, net	(2)	(2)
Net earnings	**12**	**15**

Condensed Balance Sheet

(millions of Canadian dollars)	October 31, 2015
Assets	
Cash	1
Prepaid expenses	1
Total current assets	**2**
Investment properties	1,420
Other non-current assets	119
Total assets	**1,541**
Liabilities	
Accounts payable and accrued liabilities	3
Loans and borrowings	1
Total current liabilities	**4**
Loans and borrowings	500
Total liabilities	**504**
Partners' Equity	
Partners' capital	1,043
Deficit	(6)
Total partners' equity	**1,037**
Total liabilities and partners' equity	**1,541**

Condensed Statement of Cash Flows

(millions of Canadian dollars)	Period from July 9, 2015 (date of formation) to October 31, 2015
Operating activities	
Net earnings for the period	15
Add: Finance costs, net	2
Earnings before finance costs	17
Less: Net cash interest paid	(1)
Items not affecting cash flows:	
Depreciation and amortization	10
Non-cash rental income	(5)
Net cash inflow from operating activities	**21**
Financing activities	
Distributions paid	(20)
Net cash outflow for financing activities	**(20)**
Increase in cash	**1**
Cash at beginning of period	—
Cash at end of period	**1**

HBS Joint Venture

The following provides additional information relating to the HBS Joint Venture, which, for greater certainty, includes the contribution of the Kaufhof properties as of the Kaufhof Acquisition Date for the periods indicated.

Condensed Statement of Net Loss

(millions of U.S. dollars)	Thirteen week period ended October 31, 2015	Period from July 22, 2015 (date of formation) to October 31, 2015
Rental revenue and operating income	**51**	**55**
General and administrative expenses	(25)	(28)
Depreciation and amortization	(15)	(17)
Earnings before finance costs	**11**	**10**
Finance costs, net	(16)	(17)
Loss before income taxes	**(5)**	**(7)**
Income tax expense	(1)	(1)
Net loss	**(6)**	**(8)**

Condensed Balance Sheet

(millions of U.S. dollars)	October 31, 2015
Assets	
Cash	207
Other current assets	53
Investment properties	3,723
Intangible assets	50
Other assets	136
Total assets	**4,169**
Liabilities	
Loans and borrowings	2,473
Deferred tax liabilities	177
Other liabilities	208
Total liabilities	**2,858**
Total partners' equity	**1,311**
Total liabilities and partners' equity	**4,169**

Condensed Statement of Cash Flows

(millions of U.S. dollars)	Period from July 22, 2015 (date of formation) to October 31, 2015
Operating activities	
Net loss for the period	(8)
Add: Income tax expense	1
Add: Finance costs	17
Earnings before income taxes and finance costs	10
Interest paid in cash	(19)
Items not affecting cash flows:	
Depreciation and amortization	17
Changes in operating working capital	(2)
Net cash inflow from operating activities	**6**
Investing activities	
Acquisition of Kaufhof Property Business, net of cash acquired	(1,637)
Acquisition of investment property	(172)
Net cash outflow from investing activities	**(1,809)**
Financing activities	
Long-term loans and borrowings:	
Issued	2,357
Borrowing costs	(24)
	2,333
Contributions received	640
Proceeds paid to partners	(939)
Distributions paid	(34)
Net cash inflow from financing activities	**2,000**
Foreign exchange gain on cash	10
Increase in cash	207
Cash at beginning of period	—
Cash at end of period	**207**

Summary of Consolidated Quarterly Results

The following table summarizes quarterly financials of the Company for the past eight quarters.

(millions of Canadian dollars except per share amounts)	Fiscal Quarter Ended							
	Oct 31, 2015	Aug 1, 2015	May 2, 2015	Jan 31, 2015	Nov 1, 2014	Aug 2, 2014	May 3, 2014	Feb 1, 2014
	$	$	$	$	$	$	$	$
Retail sales	2,566	2,038	2,072	2,632	1,913	1,769	1,855	2,407
Adjusted EBITDA	160	66	96	318	116	81	97	253
Net Earnings (Loss)								
Continuing operations	1	67	(54)	111	(13)	(36)	176	37
Discontinued operations	—	—	—	—	—	—	—	(8)
	1	67	(54)	111	(13)	(36)	176	29
Net Earnings (Loss) per Common Share - Basic [1]								
Continuing Operations	0.01	0.37	(0.30)	0.61	(0.07)	(0.20)	0.97	0.21
Discontinued Operations	—	—	—	—	—	—	—	(0.05)
Net (Loss) Earnings per Common Share - Diluted [1]								
Continuing Operations	(0.07)	0.33	(0.30)	0.60	(0.07)	(0.23)	0.97	0.11
Discontinued Operations	—	—	—	—	—	—	—	(0.05)
Reported Retail Sales Percentage Change	34.1%	15.2%	11.7%	9.3%	94.4%	86.6%	109.8%	73.5%
Same Store Sales Percentage Change [2]								
Continuing Operations	12.9%	14.3%	11.7%	8.7%	7.1%	5.0%	8.6%	6.6%
Continuing Operations (constant currency basis)	2.0%	4.2%	2.7%	3.2%	2.7%	1.9%	2.8%	2.2%
DSG [3]	5.1%	4.9%	4.9%	2.5%	1.4%	1.1%	2.6%	2.2%
Saks Fifth Avenue [4]	(3.6%)	0.1%	0.6%	2.3%	1.3%	0.3%	2.4%	2.5%
OFF 5TH [4]	2.8%	12.7%	10.3%	11.4%	19.2%	15.2%	15.2%	8.0%
HBC Europe [5]	6.6%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes:

(1) Net Earnings (Loss) per Common Share ("EPS") in each quarter is computed using the weighted-average number of Common Shares outstanding during that quarter, while EPS for the full year is computed using the weighted-average number of Common Shares outstanding during the year. Thus, the sum of the four quarters' EPS may not equal the full-year EPS.

(2) The Company calculates same store sales on a year-over-year basis from stores operating for at least 13 months and includes digital commerce sales and clearance store sales. The calculation for same store sales excludes sales related accounting adjustments for DSG, Saks Fifth Avenue, OFF 5TH and HBC Europe. Consolidated same store sales include results for all banners.

(3) Based on realignment of banners by management, DSG has replaced separate Hudson's Bay and Lord & Taylor reporting of same store sales percentage and also includes Home Outfitters beginning the third quarter of Fiscal 2014 (see "General Information"). Same store sales for DSG are calculated on a constant currency basis.

(4) Same store sales of Saks Fifth Avenue and OFF 5TH are calculated in U.S. dollars.

(5) Same store sales of HBC Europe are calculated in Euros following the Kaufhof Acquisition Date.

Outlook

Based upon current trends in the overall retail industry environment, the impact of terrorism incidents on HBC's businesses in Belgium and Germany (including store closures), and management's views on, among other things, the current and anticipated operating environment and our ongoing initiatives, management has updated its Fiscal 2015 and 2016 outlook, which is fully qualified by the "Forward-Looking Statements" section of this MD&A.

(Canadian dollars)	Fiscal 2015	Fiscal 2016
Sales	$10.7 to $11.2 billion	$14.2 to $15.2 billion
Adjusted EBITDAR	$1,165 to $1,235 million	$1,560 to $1,710 million
Adjusted EBITDA	$730 to $800 million	$800 to $950 million

The updated outlook represents significant growth in the Company's Adjusted EBITDAR and Adjusted EBITDA when compared to HBC's Fiscal 2014 results of $869 million and $612 million, respectively. This reflects HBC's ongoing focus on strategic growth initiatives, including the addition of HBC Europe, accelerated pace of new store openings at OFF 5TH, strengthening digital and all-channel presence and capabilities, and the 2016 expansion of Saks Fifth Avenue and OFF 5TH into Canada.

The previous Fiscal 2015 capital expenditure guidance of $350 million to $400 million, net of landlord incentives, was only related to Legacy HBC. Based upon current trends, the Company is lowering its capital expenditure guidance for Fiscal 2015, in respect of Legacy HBC and HBC Europe, to between $300 million and $350 million, net of landlord incentives. This activity includes the addition of one Saks Fifth Avenue store and 15 OFF 5TH stores.

This outlook implies low single digit same store sales growth, calculated on a constant currency basis and reflects exchange rate assumptions of USD:CAD = 1:1.30 and EUR:CAD = 1:1.50 for Fiscal 2015 and USD:CAD = 1:1.32 & EUR:CAD = 1:1.50 for Fiscal 2016. Any variation in these foreign exchange rate assumptions could impact the guidance. The actual average foreign exchange rates incorporated in the Company's reported sales results for the third quarter of Fiscal 2015 were USD:CAD = 1:1.32 and EUR:CAD = 1:1.47.

Liquidity and Capital Resources

Cash Flows

Total cash including restricted cash is managed to remain at minimal levels by drawing on or repaying our revolving credit facilities. Our liquidity and capital resources are primarily impacted by: (i) current cash and cash equivalents, (ii) operating activities, (iii) investing activities, and (iv) financing activities. The following table summarizes cash flows by activity:

	Thirteen week period ended		Thirty-nine week period ended	
(millions of Canadian dollars)	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
	$	$	$	$
Operating activities	(310)	(84)	(638)	(120)
Investing activities	(1,072)	(96)	(35)	519
Financing activities	1,628	184	810	(377)
Increase in cash	246	4	137	22
Foreign exchange (loss) gain on cash	(12)	2	(13)	1
Cash at beginning of period	58	38	168	21
Cash at end of period	292	44	292	44

Net Cash Flow - Operating Activities

Net cash outflow for operating activities was $310 million for the thirteen week period ended October 31, 2015 compared to $84 million for the thirteen week period ended November 1, 2014. The increase in outflow is attributed primarily to higher investments in working capital in the current period.

For the thirty-nine week period ended October 31, 2015, net cash outflow for operating activities was $638 million compared to $120 million for the thirty-nine week period ended November 1, 2014, an increase in outflow of $518 million. The increase is due primarily to higher investments in working capital in the current period.

Net Cash Flow - Investing Activities

Net cash outflow for investing activities was $1,072 million for the thirteen week period ended October 31, 2015 compared to $96 million for the thirteen week period ended November 1, 2014. The increase in outflow of $976 million is primarily due to the acquisition of the Kaufhof Operating Business and the investments in joint ventures.

For the thirty-nine week period ended October 31, 2015, net cash outflow for investing activities was $35 million compared to an inflow of $519 million for the thirty-nine week period ended November 1, 2014, resulting in a net increase in outflow of $554 million. Increased capital expenditures combined with the acquisition of the Kaufhof Operating Business and investments in joint ventures were almost completely offset by the proceeds received from contribution of assets to the joint ventures in Fiscal 2015. This change in outflow is primarily due to the non-recurring inflow in Fiscal 2014 created as a result of proceeds of $650 million generated by the Queen Street Sale.

Net Cash Flow - Financing Activities

Net cash inflow from financing activities was $1,628 million for the thirteen week period ended October 31, 2015 compared to $184 million for the thirteen week period ended November 1, 2014. The increase in inflow of $1,444 million over the comparable period can be attributed primarily to the new U.S. Term Loan B issued in the current year.

For the thirty-nine week period ended October 31, 2015, net cash inflow from financing activities was $810 million compared to an outflow of $377 million for the thirty-nine week period ended November 1, 2014, a net increase in inflow of $1,187 million over the comparable period. The inflow in the current period primarily relates to the issuance of the new U.S. Term Loan B net of repayments in the current quarter plus increases in short-term borrowings from our asset-based credit facilities.

Cash Balances and Liquidity

The Company's primary needs for cash are to fund: (i) operations; (ii) capital expenditures in connection with our renovation programs and strategic initiatives; (iii) seasonal inventory purchases and other working capital requirements; and (iv) debt service. Working capital requirements are at their highest in the latter half of the fiscal year as inventory builds through the fall, peaking just before the holiday selling season.

The Company's primary sources of funds are cash flows provided by operations, landlord incentives, our HBC and U.S. revolving credit facilities, and mortgage-backed real estate financing. Other potential sources of funding may include new corporate loans and mortgages, the sale and leaseback of real estate properties, selling real estate, selling other company assets or the issuance of equity. The availability of funding sources is dependent on, among other things, economic conditions, capital markets and our financial condition.

The Company may consider additional acquisitions of, and investments in, retail businesses, and other complimentary assets, properties or companies. Transactions, if any, are expected to be financed through a combination of the following sources: cash on hand, borrowings under existing or new credit facilities and the issuance of long-term debt or other securities, including Common Shares.

Funding Capacity

The Company anticipates that we will be able to satisfy our working capital requirements, planned capital expenditures and debt service requirements with proceeds from cash flows from operations, short-term trade credit, seasonal borrowings under our revolving credit facilities and other sources of financing. The Company expects to generate adequate cash flow from operating activities to sustain current levels of operations.

Management believes that there is not a significant risk of default and/or arrears on lease payments, interest or principal payment of debt, or of a breach of debt covenants.

There is no provision in debt, lease, or other arrangements that could trigger an additional funding requirement for the Company. There are no legal or practical restrictions on the ability of subsidiaries to transfer funds to the Company that would affect the ability to meet its obligations as and when they fall due.

In connection with the closing of the Kaufhof Acquisition, the Company entered into an agreement for the U.S. Term Loan B, a U.S.$1,085 million term loan facility ("U.S. Term Loan B") with Bank of America, N.A. as the administrative agent.

The U.S. Term Loan B matures September 30, 2022 and carries an interest rate of LIBOR plus 3.75% per annum. The agreement is structured such that LIBOR will be deemed to be not less than 1% per annum ("LIBOR Floor"). The U.S. Term Loan B is subject to mandatory prepayments. The term loan is secured by a second lien over inventory and accounts receivables, a first lien over certain assets as well as a pledge of the shares of material subsidiaries of the Company.

Contractual Obligations

The Company has a number of obligations related to leases, lease guarantees, loans and borrowings, procurement obligations, pensions and other obligations. In the period up to December 10, 2015, other than the operating lease commitment discussed below, there were no material changes to the Company's contractual obligations compared to those identified at year-end. For a complete description of the contractual obligations of the Company, please refer to management's discussion and analysis for the thirteen and fifty-two weeks ended January 31, 2015.

As at October 31, 2015, future minimum payments under non-cancelable operating leases with the joint ventures are approximately $9.9 billion.

In the first quarter, we reported an error in the disclosure to note 16 of our annual financial statements for the year ended January 31, 2015 disclosed in note 17 of the unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended October 31, 2015. The revised contractual obligations table from management's discussion and analysis for the thirteen and fifty-two weeks ended January 31, 2015 is as follows:

(millions of Canadian dollars)	Total	Fiscal Year 2015	2016	2017	2018	2019	Thereafter
	$	$	$	$	$		$
Lease financing							
Operating lease arrangements	3,546	263	264	271	245	218	2,285
Short-term borrowings							
HBC Revolving Credit Facility	159	159	—	—	—	—	—
U.S. Revolving Credit Facility	108	108	—	—	—	—	—
Long-term borrowings							
Senior Term Loan B	826	—	—	—	—	—	826
Yorkdale Mortgage	48	2	1	1	1	1	42
Lord & Taylor Mortgage	318	1	3	314	—	—	—
Saks Mortgage	1,599	—	—	—	—	—	1,599
Finance leases and other	165	20	15	3	2	2	123
Purchase obligations	151	66	20	15	12	11	27
Other obligations	1,424	1,318	27	11	68	—	—
Total obligations	8,344	1,937	330	615	328	232	4,902

The table should be read in conjunction with the footnotes outlined in the contractual obligations section of management's discussion and analysis for the thirteen and fifty-two weeks ended January 31, 2015.

Guarantees and Off-Balance Sheet Arrangements

The Company has guarantees and general indemnification commitments to counterparties. Historically, the Company has not made any significant payments with respect to these guarantees and indemnification provisions, and management believes that the risk of significant loss is low.

Standby and documentary letters of credit are used in connection with certain obligations mainly related to purchase orders and Workers Compensation Collateral requirements. The aggregate gross potential liability related to the Company's letters of credit is approximately $39 million as at October 31, 2015.

Other than in connection with the RioCan-HBC JV and the HBS Joint Venture, the Company has not created, and is not party to, any special purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating its business. The Company does not have any relationships or arrangements with entities that are not consolidated into its financial statements that are reasonably likely to materially affect liquidity or the availability of capital resources. The joint ventures are accounted for using the equity method of accounting. As a result, indebtedness at the joint ventures is not consolidated on the Company's balance sheet and there is limited impact on cash flow. See the "Real Estate Joint Ventures" section of this MD&A.

During the thirteen weeks ended August 1, 2015, a subsidiary of the Company guaranteed third-party debt, which was obtained by the HBS Joint Venture in conjunction with the closing of the transaction. The maximum aggregate liability of the Company under this guarantee will not exceed U.S. $250 million.

Financial Instruments and Other Instruments

The Company utilizes certain derivatives as cash flow hedges of its exposure to foreign currency risk and interest rate risk. The effective portion of the changes in the fair value of the hedging derivatives, net of taxes, is recognized in other comprehensive (loss) income.

The Company enters into forward foreign exchange contracts to fix the cost in Canadian dollars of certain U.S. dollar based purchases of merchandise from foreign suppliers. These forward exchange contracts have been designated as cash flow hedges and reported at fair value in financial assets or financial liabilities, depending on their fair value. Once the inventory is recorded, the Company has elected to reclassify the related accumulated other comprehensive (loss) income amount to merchandise inventories. Subsequent changes in the fair value of the forward foreign exchange contracts are recorded in Net Earnings (Loss).

Derivative financial instruments not designated within an effective hedging relationship and embedded derivatives are classified as fair value through profit or loss and measured at fair value with any changes in their fair values recognized in Net Earnings (Loss) in the period in which the change occurs. Short-term deposits are classified as held to maturity, which are measured at amortized cost using the effective interest method. All other financial assets are classified as loans and receivables and measured at amortized cost using the effective interest method.

All other financial liabilities are classified as other liabilities and measured at amortized cost using the effective interest method. Interest income and expense are included in finance costs.

The Company determines the fair value of its long-term loans and borrowings using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the related debt compared to fixed interest rate spreads on similar debt available in the market at the balance sheet dates.

The fair values of foreign currency options, interest rate swaps and forward foreign currency contracts reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date.

In connection with the Saks Acquisition, the Company issued Common Share purchase warrants which, due to certain features, are being presented as financial liabilities. The warrants are classified as fair value through profit or loss and measured at fair value. Subsequent changes in the fair value are recognized in Net Earnings (Loss)

in the period in which the change occurs. The fair values of the warrants are determined using the Black-Scholes option pricing model. For a complete description of the derivative financial instruments of the Company and related risks, please refer to note 18 to the Company's audited consolidated financial statements for Fiscal 2014 and note 20 of the Company's unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended October 31, 2015.

In connection with the Kaufhof Acquisition, the Company had previously entered into 2 separate forward foreign exchange contracts (the "FX forward contracts") during the thirteen weeks ended August 1, 2015 that resulted in the Company eliminating its foreign currency exposure on a portion of the proceeds that were to be used in the Kaufhof Acquisition. Each FX forward contract was designated as a hedge of the exposure to changes in USD/EUR related to the then forecasted Kaufhof Acquisition denominated in Euro. Each hedging relationship was assessed to be highly effective throughout the designated hedging period which ended on September 30, 2015, the Kaufhof Acquisition Date.

A net realized loss of $6 million, along with $2 million of deferred taxes previously included in other comprehensive (loss) income representing the mark-to-market adjustment to fair value from the date of execution of each FX forward contract, June 18, 2015 and June 29, 2015, respectively to September 30, 2015 was included as part of the purchase price allocation of the Kaufhof Property Business acquired by the HBS Joint Venture subsequent to the closing of the Kaufhof Acquisition.

The fair value of each FX forward contract was determined using a valuation technique that employs the use of market observable inputs and based on the differences between the contract rate and the market rates as at the period-end date, taking into consideration discounting to reflect the time value of money (see note 20 of the Company's unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended October 31, 2015).

Tax Matters

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

The Company regularly reviews the potential for adverse outcomes in respect of tax matters. The Company believes that there are no tax matters that will have a material adverse effect on its liquidity, consolidated financial position or results of operations because the Company believes that it has adequate provisions for any tax matters. Should the ultimate tax liability materially differ from the provisions, the Company's effective tax rate and its earnings (loss) could be affected, positively or negatively, in the period in which the matters are resolved.

Related Party Transactions

Transactions between HBC and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed herein. Details of transactions with other related parties are disclosed below.

On May 6, 2011, a subsidiary of L&T Acquisition entered into a 2 year lease with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include 3 renewal options. The first 2 renewal options are for terms of 2 and 3 years, respectively, at an annual cost of U.S.$440 thousand. The third renewal option is for a term of 5 years at an annual cost of U.S.$484 thousand. The first and second renewal options were exercised. Amounts charged to the Company under the rental arrangement for the thirteen and thirty-nine week periods ended October 31, 2015 were U.S.$110 thousand and U.S.$330 thousand, respectively (2014: U.S.$100 thousand and U.S.$300 thousand, respectively). The Landlord is an affiliate of National Realty & Development Corp. ("NRDC"). Richard and Robert Baker, the principals of NRDC, are Directors of the Company.

On February 25, 2014, the Company completed the sale of its downtown Toronto flagship store and adjacent Simpson's Tower office complex to an affiliate of The Cadillac Fairview Corporation Limited, an affiliate of HSILP, for a purchase price of $650 million. 2380162 Ontario Limited, a subsidiary of Ontario Teachers' Pension

Plan and successor in interest to HSILP, is a shareholder of the Company. The Company has leased the entire retail and a portion of office complex back for a base term of twenty-five years, with renewal options up to approximately twenty-five years. The transaction is considered to be a related party transaction because an affiliate of The Cadillac Fairview Corporation Limited is a related party of the Company by virtue of it being an affiliate of Ontario Teachers' Pension Plan Board, which indirectly holds the power to exercise control and direction over, and beneficial ownership of, more than 10% of the Company's outstanding voting shares. As part of this transaction, Saks has also agreed to lease space in Toronto's Sherway Gardens from The Cadillac Fairview Corporation Limited, which is also considered to be a related party transaction. Previously, the Company had entered into store leases with The Cadillac Fairview Corporation Limited or its affiliates for stores located at: Fairview Park in Kitchener, Ontario; Richmond Centre in Richmond, British Columbia; Chinook Centre and Market Mall, both in Calgary, Alberta; Polo Park Shopping Centre in Winnipeg, Manitoba; Masonville Place in London, Ontario; Markville Shopping Centre in Markham, Ontario; Limeridge Mall in Hamilton, Ontario; Fairview Pointe-Claire, in Pte-Claire, Quebec; Fairview Mall in Toronto, Ontario; Carrefour Laval in Laval, Quebec; Les Promenades St. Bruno in St. Bruno, Quebec; and Les Galeries D'Anjou in Montreal, Quebec. The leases contain representations and warranties, positive and negative covenants and events of default which, in each case, are customary to leases of this nature. The Company is in compliance with the covenants contained in the leases.

On May 18, 2015, a subsidiary of L&T Acquisition entered into a 10 year lease with Mack Properties Co. No. 6 LLC ("Mack Properties") for approximately 35,000 square feet in Paramus, NJ. The lease has 2 renewal options for terms of 10 and 5 years, respectively. There has been no amount charged to the Company under the rental arrangement for the thirteen and thirty-nine week periods ended October 31, 2015 since the rent commencement date has not yet occurred. Mack Properties is owned by William Mack, a Director of the Company.

As at October 31, 2015, the Company has an outstanding receivable in the amount of $269 thousand (2014: $300 thousand) due from Hudson's Bay Trading Company, LP, a shareholder of the Company, with respect to the reimbursement of expenses for services provided by HBC on their behalf.

HBC has entered into vendor agreements with two related companies that are affiliated with Earl Rotman, a Director of the Company. The agreements relate to menswear and womenswear sold in Saks and DSG. During the thirteen week period ended October 31, 2015, HBC purchased approximately $524 thousand of goods from these companies, and has committed to ordering approximately $2 million for the remainder of Fiscal 2015 and Fiscal 2016.

In connection with the closing of its agreements to sell and leaseback various U.S. properties to the HBS Joint Venture, HBC paid for certain cash reserves and financing and operating expenses on behalf of the HBS Joint Venture for which the Company received a promissory note in the amount of $8 million. The promissory note matures on July 22, 2016 and carries an interest rate of 5% per annum. As at October 31, 2015, the promissory note had an outstanding balance of $6 million and was included in trade and other receivables. As at October 31, 2015, the Company has an outstanding receivable in the amount of $1 million due from the HBS Joint Venture with respect to the reimbursement of expenses paid by HBC on their behalf. In addition, a subsidiary of the Company guaranteed third-party debt which was obtained by the HBS Joint Venture in conjunction with the closing of the transaction. The maximum aggregate liability of the Company under this guarantee will not exceed U.S.$250 million.

The Company entered into management agreements with the joint ventures upon their closing. Pursuant to the management agreements, HBC is reimbursed for expenses relating to advisory and administrative services it provides to the RioCan-HBC JV and the HBS Joint Venture. Reimbursement related to expenses for the thirteen and thirty-nine weeks ended October 31, 2015 were $500 thousand.

As part of the acquisition of the Kaufhof Operating Business, the Company assumed a $22 million liability due to a wholly-owned subsidiary of the HBS Joint Venture which relates to two properties for which the Company meets the definition of control. In addition, the Company acquired options to purchase these properties that when exercised, would relieve this liability. This liability has been included in other liabilities.

During the thirteen and thirty-nine weeks ended October 31, 2015, the Company incurred rent expense of $83 million and $93 million respectively, related to both the RioCan-HBC JV and the HBS Joint Venture. As at

October 31, 2015, other current assets included prepaid rent to the HBS Joint Venture of $12 million.

As at October 31, 2015, the Company has outstanding receivables in the amount of $4 million due from the HBS Joint Venture. The receivables relate to interest on an extinguished related party loan of $2 million and $2 million resulting from a profit transfer agreement under German commercial law.

All of the above amounts have been recorded at the exchange value of the transaction.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with IFRS. Except as noted below, the Company's significant accounting policies are described in note 2 to the Fiscal 2014 audited consolidated financial statements and the Company's management's discussion and analysis for the thirteen and fifty-two weeks ended January 31, 2015.

The preparation of these financial statements requires management to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities, and reporting of income and expenses, that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are certain critical judgments and estimations that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements (see note 2 to the Fiscal 2014 audited consolidated financial statements for further critical judgments and estimations):

- Inventories
- Loyalty programs
- Impairment and reversal of impairment of long-lived assets
- Impairment of goodwill
- Income taxes
- Post-employment benefits
- Valuation of financial instruments
- Business combinations

As a result of the closing of the joint venture transactions and the Kaufhof Acquisition, management has identified joint arrangements accounting as an additional area of critical judgement and estimations (see note 2 to the unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended October 31, 2015).

Changes in Accounting Policies Including Initial Adoption

New Accounting Policies

Interest in Joint Ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in joint ventures are accounted for using the equity method. Under the equity method, the

investment in a joint venture is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the joint venture. When the Company's share of losses of a joint venture exceeds the Company's interest in that joint venture, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its joint venture arrangements. At each reporting date, the Company determines whether there is objective evidence that the investment in its joint ventures is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognizes the loss as 'Share of net earnings (loss) in joint ventures' in the consolidated statement of earnings (loss).

The Company has investments in joint ventures that are structured using separate vehicles that give each party to the arrangement rights to the net assets of the joint venture.

The Company reclassifies its share of inter-company rental income from its share of earnings in the joint ventures to rent expense recorded in SG&A.

Future Expected Changes

Financial Instruments - In July 2014, the IASB issued IFRS 9 – Financial Instruments ("IFRS 9"), which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39").

Classification and measurement

Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in other comprehensive (loss) income instead of Net Earnings (Loss).

Impairment

The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk.

Hedge accounting

The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The new model will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

IFRS 9 will be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Revenue - In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15"), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of IFRS 15.

Joint Arrangements - In May 2014, the IASB amended IFRS 11 – Joint Arrangements ("IFRS 11") to require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 – Business Combinations principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the

parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments to IFRS 11 are effective for annual periods beginning on or after January 1, 2016, and must be applied prospectively. Early adoption is permitted. The Company is assessing the potential impact of the amendments to IFRS 11.

Management's Report on Internal Controls over Financial Reporting

Disclosure Controls and Procedures

National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filing ("NI 52-109") requires public companies in Canada to submit annual and interim certificates relating to the design and effectiveness of the disclosure controls and procedures that are in use at the company. Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

Subject to the limitations set out below, the Company's management, under the supervision of the CEO and the CFO, has designed and maintained a set of disclosure controls and procedures to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Controls over Financial Reporting

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial reporting and financial statement preparation.

Limitation on Scope of Design

The CEO and CFO have limited the scope of design of disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of Kaufhof, which was acquired on September 30, 2015.

This scope limitation is in accordance with section 3.3(1)(b) of NI 52-109, which allows for an issuer to limit the design of disclosure controls and procedures and internal control over financial reporting for a business that the issuer acquired not more than 365 days before the last day of the period covered by this MD&A.

The following is a summary of certain financial information related to HBC Europe:

(millions of Canadian dollars)	Thirteen and Thirty-nine weeks ended October 31, 2015
Retail sales	387
Net loss	(8)

(millions of Canadian dollars)	October 31, 2015
Current assets	**1,258**
Non-current assets	**1,537**
Current liabilities	**845**
Non-current liabilities	**914**

These results are prepared under IFRS and may not be comparable to Kaufhof's historical reporting prior to its acquisition by the Company.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during Fiscal 2015 that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

Additional information relating to the Company, including the most recently filed Annual Information Form, is available on SEDAR at www.sedar.com.

Dividends

The Company's Board of Directors approved the payment of a quarterly dividend on September 10, 2015, which was paid on October 15, 2015, to shareholders of record at the close of business September 30, 2015. The dividend was in the amount of $0.05 per Common Share and was designated as an "eligible dividend" for Canadian tax purposes.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. As of December 10, 2015, the Company had 182,100,001 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of December 10, 2015, the Company had 12,419,998 share options, 378,990 restricted share units and 6,750,000 warrants outstanding, all of which are convertible or exchangeable into Common Shares.

The Company's Common Shares trade on the Toronto Stock Exchange under the symbol "HBC" and began trading on November 20, 2012. In addition, there are approximately 34 million Common Shares reserved for issuance for the exercise of share options, warrants and the settlement of restricted share units. Assuming exercise of all outstanding share options and the settlement of all outstanding restricted share units, there would be approximately 194.9 million Common Shares issued and outstanding on a fully diluted basis. Assuming exercise of all outstanding share options, the settlement of all outstanding restricted share units and the exercise of all outstanding warrants, there would be approximately 201.6 million Common Shares issued and outstanding on a fully diluted basis.

Risk Factors

Business and Strategic Risks

Failure to execute our retailing growth strategies could have a material adverse effect on our businesses and results of operations.

Our continued growth and successes are dependent on our ability to identify, develop and execute our strategies and also, in part, on our ability to successfully open and operate new stores, enhance and remodel existing stores on a timely and profitable basis, and optimize store performance by closing under-performing stores. The success of any future store openings will depend upon numerous factors, many of which are beyond our control, including the following:

- the ability to attract appropriate vendors;
- the competition for suitable store sites;
- the ability to negotiate favorable lease terms with landlords;
- the availability of associates to staff new stores and our ability to hire, train, motivate, and retain store personnel; and
- the ability to attract customers and generate sales sufficient to operate new stores profitably.

Our continued growth and success also depends, in part, on our ability to implement and successfully execute on our digital commerce strategy. Our customers are increasingly using computers, tablets, mobile phones and other devices to shop online. We are enhancing our customer shopping experience across all of our banners by

pursuing a heightened focus on technology and digital commerce to accelerate our growth. Digital commerce retailing is rapidly evolving, and we must keep pace with changing customer expectations and new developments by competitors. A failure to provide attractive, user-friendly digital commerce platforms that offer a wide assortment of merchandise at competitive prices and with rapid delivery options and that continually meet the changing expectations of online shoppers and developments in online merchandising and related technology could place us at a competitive disadvantage, result in the loss of sales, harm our reputation with customers and could have a material adverse effect on our businesses and results of operations. In addition, if there are performance issues with our customer-facing technology systems, we may experience a loss of customer confidence and sales, which could also have a material adverse effect on our businesses and results of operations.

We continue to implement customer-oriented strategic programs designed to differentiate and strengthen our core merchandise content and service levels and expand and enhance our merchandise offerings. We also seek to improve the effectiveness of our marketing and advertising programs. If we fail to successfully implement some or all of these initiatives, we may be unable to retain or attract customers, which could have a material adverse effect on our businesses and results of operations.

The successful implementation of our growth strategies also depend on our ability to effectively plan, source and manage our merchandise mix and inventory levels, leverage our competitive strengths, as well as certain factors which are beyond our control including general economic conditions and consumer confidence in future economic conditions. Ineffective change management could result in disruptions to our operations or negatively affect our ability to implement and achieve our long term strategic objectives. If we fail to execute any one or more of these initiatives or fail to fully realize the benefits expected to result from these initiatives, our ability to continue to grow and our ability to remain competitive, could be materially adversely impacted. If we are not able to develop and perform new roles, processes and disciplines, we may not achieve the expected cost savings and other benefits of these initiatives. Failure to properly execute the various processes will increase the risk of customer dissatisfaction, which in turn could have a material adverse effect on our businesses and results of operations. Our results to date are not an indication of future results, and there can be no assurance that these initiatives will generate increased sales, increased sales per square foot or improve operating margins even if we were to successfully implement our growth strategies.

We may not be able to continue same store sales growth.

The Company’s success depends, in part, upon our ability to improve same store sales. Various factors affect same store sales, including competition, consumer trends and preferences, the general retail environment, the Company’s ability to efficiently source and distribute products, changes in the Company’s merchandising mix, competition, current economic conditions, the timing of release of new merchandise and promotional events, the success of marketing programs, weather conditions and changes in the other tenants in the shopping areas in which the Company’s stores are located. These factors, among others, may cause the Company’s same store sales results to differ materially from prior periods and from expectations. Past same store sales are no indication of future results, and there can be no assurance that the Company’s same store sales will increase period over period. We have made and intend to continue to make significant capital investments to increase same store sales growth by optimizing store layout, vendor shops, merchandise and product offerings and presentation. Failure to continue to grow same store sales could have a material adverse effect on our businesses and results of operations.

We face risks associated with consumer preferences, demand, and fashion trends.

The fashion and retail merchandising industries are subject to constant shifts in consumer preferences and fashion trends. Our sales and results from operations will continue to depend in part on our ability to predict and respond to changes in consumer preferences and fashion trends in a timely manner and we continuously manage our portfolio of brands to respond to such trends. We will continue to develop new retail concepts and adjust our position in certain name brands and private-label brands and merchandise categories in an effort to satisfy our customers. To the extent our predictions differ from our customers’ preferences, we may face excess inventories for some products and/or missed opportunities for others. Excess inventories can result in lower gross margins due to greater than anticipated discounts and markdowns that might be necessary to reduce inventory levels. Conversely, low inventory levels can adversely affect our ability to meet customer demand, which may lead to lost sales and diminished brand loyalty. Any sustained failure to anticipate, identify and respond to emerging trends in lifestyle, consumer preferences and spending patterns and any significant misjudgments of inventory levels could have a material adverse effect on our businesses and results of operations.

We depend on the success of our advertising and marketing programs.

Our businesses depend, in part, on high in store traffic and effective marketing. We have undertaken many initiatives in this area including rejuvenating our advertising campaigns to reflect our fresh brand offerings and renovated stores. However, there can be no assurance as to our continued ability to effectively execute our advertising and marketing programs, and to maintain top-of-mind awareness of our banners, and any failure to do so could have a negative impact on our brand or reputation, which could adversely impact customers' opinion of and confidence in the Company and could have a material adverse effect on our businesses and results of operations.

We depend on our brands and on our relationships with certain designers, vendors and other sources of merchandise.

Our ability to continue to attract and retain popular brands that are favoured by consumers is critical to our strategy to respond to consumer preferences. We do not have long term contracts with vendors and therefore our ability to continue to sell brands that are popular with consumers and, if applicable, to have exclusivity of certain brands, are dependent on ongoing positive relationships with our vendors. Vendors of popular brands ceasing to do business with our banners, or material changes in the terms and conditions with such vendors (including vendor allowances and merchandise cost) change, including our ability to be an exclusive seller of certain brands, could have a material adverse effect on our businesses and results of operations.

We operate and promote several well-recognized brands that consumers may associate with a high level of customer service and quality merchandise. Failure to maintain merchandise quality and integrity, or ethical and socially responsible operations could have a material adverse effect on our businesses and results of operations. Any negative publicity about, or significant damage to our brand or reputation could negatively impact sales, reduce employee morale and productivity and diminish customer trust, any of which could have a material adverse effect on our businesses and results of operations. In those circumstances, it may be difficult and costly for the Company to regain customer confidence.

Furthermore, damage to the reputation of any of the brands promoted by us, including nationally branded, non-proprietary products and private label, proprietary products, or to the reputation of any supplier or manufacturer of these brands, could negatively impact consumer opinion of our banners or the related products, which could have a material adverse effect on our businesses and results of operations.

In particular, Saks' relationships with established and emerging designers are a key factor in its position as a retailer of luxury merchandise, and a substantial portion of its revenues are attributable to its sales of designer merchandise. Many of its key vendors limit the number of retail outlets they use to sell their merchandise, and competition among retailers to obtain and sell these goods is intense. Saks' relationships with its designers have been a significant contributor to its past success. Although there are supply arrangements with some of its merchandising sources, there can be no assurance that such sources will continue to meet Saks' quality, style, and volume requirements. Moreover, nearly all of the top designer brands sold by Saks are also sold by competing retailers, and many of these top designer brands also have their own dedicated retail stores and/or their own digital commerce sites. If one or more of these top designers were to cease providing Saks with adequate supplies of merchandise or, conversely, were to increase sales of merchandise through their own stores or to the stores of other competitors, Saks' business could be adversely affected. In addition, any decline in the popularity or quality of any of these designer brands could have a material adverse effect on our businesses and results of operations.

We may not realize the growth opportunities and synergies that we anticipate from strategic acquisitions

The benefits we expect to achieve as a result of the Saks Acquisition, the Kaufhof Acquisition and any future acquisitions depend, in part, on our ability to realize anticipated growth opportunities. Our success in realizing these growth opportunities, and the timing of this realization, depends on, among other things, the successful ongoing integration of acquired businesses and operations with our existing businesses and operations. Even if we are able to successfully complete the integration of these businesses and operations, this integration may not result in the realization of the full benefits of the growth opportunities we expected within the anticipated time frame or at all. While we anticipated that certain expenses will be incurred, actual expenses may exceed prior estimates. Accordingly, the respective benefits from the Saks Acquisition, the Kaufhof Acquisition or any future acquisitions may be offset by unexpected costs incurred or delays in completing the integration of such businesses, which could cause our revenue assumptions to be inaccurate. In addition, we are responsible for any historical liabilities of Saks and HBC Europe. There may be liabilities that the Company failed to discover or was unable to quantify accurately

or at all in the due diligence review that it conducted prior to each of the Saks Acquisition or the Kaufhof Acquisition which could have a material adverse effect on our businesses and results of operations.

We continue to expect to achieve approximately $100 million of annual cost synergies related to the Saks Acquisition by 2016. Actual cost synergies, the expenses required to realize the cost synergies and the sources of the cost synergies could differ materially from these estimates, and we cannot assure you that we will achieve the full amount of cost synergies on the schedule anticipated or at all or that these cost synergy programs will not have a material adverse effect on our businesses and results of operations.

Our businesses could suffer if we are unsuccessful in identifying, making, integrating, and maintaining acquisitions and investments.

We may be unable to continue to identify suitable acquisition candidates at acceptable prices, which could have a material adverse effect on our businesses and results of operations. From time to time we pursue strategic acquisitions of, joint arrangements with, or investments in, other companies or businesses. Any such acquisition, joint arrangement or investment that the Company makes may require the Company to spend its cash, or incur debt, contingent liabilities, or amortization expenses related to intangible assets, any of which could reduce the Company's profitability and harm its businesses. Acquisitions, joint arrangements and investments also increase the complexity of the Company's businesses and place strain on its management, personnel, operations, supply chain, financial resources, and internal financial controls and reporting functions. The Company may not be able to manage acquisitions, joint arrangements or investments effectively, which could damage our reputation, limit our growth and could have a material adverse effect on our businesses and results of operations.

In the future, we may enter into additional markets or expand one or more of our existing banners into new markets, including internationally. These markets may have different competitive conditions, consumer trends, and discretionary spending patterns than existing markets, which may cause new stores in these markets to be less successful than stores in existing markets.

Operating Risks

Our businesses depend on successful inventory management.

We must maintain sufficient inventory levels to operate our businesses successfully. However, we must also guard against accumulating excess or obsolete inventory as we seek to minimize out-of-stock levels across all product categories and to maintain in-stock levels. A significant portion of the inventory sold by our banners is sourced and obtained from vendors located outside of Canada, the U.S. and Europe. Some of these vendors often require lengthy advance notice of our requirements in order to be able to supply products in the quantities requested. This usually requires that orders, and purchase order contracts are made or entered into well in advance of the time these products will be offered for sale. As a result, we may experience difficulty in responding to a changing retail environment and consumer preferences, which makes us vulnerable to changes in the price of merchandise, raw materials, fuel, labour and the fluctuation of foreign currencies. If we do not accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory, our inventory levels will not be appropriate, which could have a material adverse effect on our businesses and results of operations, including lower gross margins due to greater than anticipated discounts and markdowns that might be necessary to reduce inventory levels. Failure to successfully manage our inventory levels may also adversely affect our relationships with our vendors, including our ability to source certain national brands and our ability to be an exclusive seller of such brands.

In addition, political or financial instability, trade restrictions, tariffs, currency exchange rates, transport capacity and costs and other factors relating to foreign trade, each of which affects our ability to access suitable merchandise on acceptable terms, are beyond our control and could have a material adverse effect on our businesses and results of operations.

The loss of, or disruption in, any of the centralized distribution centers could have a material adverse effect on our businesses and results of operations.

We depend on the orderly operation of the receiving and distribution process, which relies on adherence to shipping schedules and effective management of distribution centres. Although we believe that our current receiving and distribution processes are efficient, and that appropriate contingency plans are in place, unforeseen disruptions in operations due to fire, severe weather conditions, natural disasters, or other catastrophic events, labour

disagreements, or other shipping problems may result in delays in the delivery of merchandise to our stores and customers. Any delay or disruption in the flow of goods to stores could have a material adverse effect on our businesses and results of operations. Additionally, freight cost is impacted by changes in fuel prices. Fuel prices have been subject to significant volatility. Fuel prices affect freight cost both on inbound freight from vendors to the distribution centres and outbound freight from the distribution centres to our stores and customers.

Although we maintain business interruption and property insurance, management cannot be assured that our insurance coverage will be sufficient, or that insurance proceeds will be timely paid to us, if any of the distribution centres are damaged or shut down for any reason.

If we do not have the ability to successfully upgrade, maintain and secure our information systems to support the needs of the Company and protect against increased and evolving cyber-security threats, it could have a material adverse effect on our businesses and results of operations.

Management depends on relevant and reliable information for decision making purposes, including key performance indicators and financial reporting. A lack of relevant and reliable information that enables management to effectively manage our businesses could preclude us from optimizing our overall performance. Any significant loss of data or failure to maintain reliable data could have a material adverse effect on our businesses and results of operations.

We rely heavily on information systems to manage operations, including a full range of retail, financial, planning, sourcing and merchandising systems, and regularly make investments to upgrade, enhance or replace these systems. The reliability and capacity of information systems is critical. Despite our maintenance and preventative efforts, these systems are susceptible to obsolescence and vulnerable from time to time to damage or interruption from, among other things, security breaches, cyber-attacks, computer viruses, power outages, natural disasters, acts of terrorism, usage errors by Company employees and other technical malfunctions. Any disruptions affecting our information systems, or any delays or difficulties in transitioning to new systems or the information collected by them could have a material adverse effect on our businesses and results of operations. In addition, our ability to continue to operate our businesses without significant interruption in the event of a disaster or other disruption depends in part on the ability of our information systems to operate in accordance with our disaster recovery and business continuity plans.

A potential privacy breach could have a material adverse effect on our businesses and results of operations.

We receive, retain, and transmit certain personal information about our customers, employees and the Company and entrust that information to third parties. The protection of customer, employee, and company data is critical to the Company. The regulatory environment in Canada, the U.S., Germany and Belgium surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements across business units. Any legislative or regulatory changes adopted in reaction to recent retail-industry data breaches could affect our compliance costs, including necessary system changes and the development of new administrative processes. In addition, customers have a high expectation that we will adequately protect their personal information. A significant breach of customer, employee, or company data could attract a substantial amount of media attention, damage our customer relationships and reputation and result in lost sales, fines, or lawsuits and could have a material adverse effect on our businesses and results of operations.

Our security measures may be undermined due to the actions of outside parties, employee error, malfeasance, or otherwise, and, as a result, an unauthorized party may obtain access to our data systems and misappropriate business and personal information. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may not immediately produce signs of intrusion, we may be unable to anticipate these techniques, timely discover them, or implement adequate preventative measures. Any such breach or unauthorized access could have a material adverse effect on our businesses and results of operations.

There are risks relating to our size and scale.

The Company operates under eight banners in Canada, the U.S., Germany and Belgium. The large size of our operations, our multiple banners and the speed with which we have grown exposes us to the risk that systems and practices will not be implemented uniformly throughout the Company and that information will not be shared across the banners and countries in a timely and appropriate manner.

We depend on a limited number of key personnel who would be difficult to replace.

Our management teams of seasoned and committed industry veterans have been hand-picked from leading international retailers and have achieved success in transforming our businesses and improving our sales and operating margins. We believe our continued success and the execution of our growth strategies will depend, in part, on the continued service of our management teams.

Since we are managed by a relatively small group of senior executive officers, the loss of the technical knowledge, management expertise and knowledge of our operations of one or more members of our team could result in a diversion of management resources, as the remaining members of management would need to cover the duties of any senior executive who leaves us and would need to spend time usually reserved for managing our businesses to search for, hire and train new members of management. The loss of some or all of our team could negatively affect our ability to develop and pursue our growth strategies, which could have a material adverse effect on our businesses and results of operations. In addition, the market for key personnel in the industry in which we compete is highly competitive, and we may not be able to attract and retain key personnel with the skills and expertise necessary to manage our businesses.

We may not be successful in retaining the services of certain key personnel of HBC Europe.

We retained certain key personnel of HBC Europe following the Kaufhof Acquisition to continue to manage and operate HBC Europe and maintain relationships with customers, suppliers and other business partners. We will compete with other potential employers for employees, and we may not be successful in keeping the services of the executives and other employees that we need to realize the anticipated benefits of the Kaufhof Acquisition. Our failure to retain key personnel to remain as part of the management team of HBC Europe could have a material adverse effect on the business of HBC Europe and in turn, on our results of operations.

If we are unable to attract and retain qualified and skilled employees, our ability to roll out our formal customer service initiatives may be impaired which could have a material adverse effect on our businesses and results of operations.

Our businesses are dependent upon attracting and retaining a large number of quality employees who reflect our brand images and cultures. Many of these employees are in entry level or part-time positions with historically high rates of turnover. If we are unable to hire, train and retain employees capable of consistently providing educated service and advice to our customers, we may not be able to maintain our competitive strength in offering our customers a favourable shopping experience or to fully realize the benefits expected to result from our formal customer service initiatives, which could lead to decreased foot traffic and sales, as well as to increased costs associated with hiring and training new employees.

Our ability to meet our labour needs while controlling the costs associated with hiring and training new employees is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation and changing demographics in Canada, the U.S., Germany and Belgium. Changes that adversely impact our ability to attract and retain quality employees could have a material adverse effect on our businesses and results of operations.

Deterioration in labor relations could disrupt our business operations and increase costs, which could decrease liquidity and profitability.

The maintenance of a productive and efficient labour environment and, in the event of unionization of these employees, the successful negotiation of collective bargaining agreements, cannot be assured. Protracted and extensive work stoppages or labour disruptions such as strikes or lockouts could have a material adverse effect on our businesses and results of operations.

In addition, labour disputes at our vendors or manufacturers, particularly if such disputes result in work stoppages or labour disruptions such as strikes or lockouts could have a material adverse effect on our businesses and results of operations, including our ability to plan, source and manage our merchandise mix and inventory levels and to respond to customer demands.

The HBC pension plan is currently in a surplus but it may move into a deficit position which would require us to make cash payments to the plan, reducing cash available for our businesses.

The Company has a defined benefit pension plan (the "HBC Pension Plan"). The HBC Pension Plan's funded status, which fluctuates with market conditions, affects the amount of cash contributions required from the Company. Currently, the HBC Pension Plan is in a surplus position. As such, no cash payments in respect of past service funding deficits are required. However, it is possible that long-term interest rates and/or lower than expected asset returns could cause the HBC Pension Plan to move into a deficit position. If this occurs, the Company may be required to start remitting amounts necessary to amortize such deficit. Given the relative size of the HBC Pension Plan, a downward swing in the funded status of the HBC Pension Plan could have a significant impact on the Company's future cash funding requirements in respect of the HBC Pension Plan.

The audit committee monitors the HBC Pension Plan assets closely and follows strict guidelines to ensure that pension fund investment portfolios are diversified in line with industry best practices. Nonetheless, pension fund assets are not immune to market fluctuations and the Company may be required to make cash contributions in the future. The Company believes that it has sufficiently strong cash flows to fund its operations, investing activities and commitments for the foreseeable future. The Company's cash flows from operations are subject to fluctuation due to various factors, including commodity, foreign exchange and interest rate risks.

Pension related accounting policies include various assumptions that incorporate a high degree of judgment and complexity. These assumptions may change in the future and may have a material impact on the accrued benefit obligations of the Company and the cost of the HBC Pension Plan, which is reflected in the Company's consolidated statement of earnings.

Funding requirements for Saks' pension plan may exceed expectations based on the performance of assets in its pension plan which would reduce cash on hand in our businesses.

Saks sponsors a funded defined-benefit cash balance pension plan ("Saks Pension Plan") and an unfunded supplemental executive retirement plan ("SERP") for certain employees. Effective January 1, 2007, Saks amended the Saks Pension Plan, suspending future benefit accruals for all participants, except certain "grandfathered participants". Effective March 13, 2009, Saks further amended the Saks Pension Plan, suspending future benefit accruals for all remaining participants.

Saks records a liability associated with these plans equal to the excess of the benefit obligation over the fair value of plan assets. If the performance of the assets in these pension plans does not meet Saks' expectations, or if other actuarial assumptions are modified, Saks' future cash payments, and therefore ours, to the plans could be higher than expected.

Saks funding policy requires contributions to the Saks Pension Plan be at least equal to the minimum funding requirement, as determined under the Employee Retirement Income Security Act ("ERISA") of 1974. Saks may make additional contributions from time to time, generally not to exceed the maximum tax-deductible limitation. The Saks Pension Plan and SERP obligations are valued annually as of Saks' fiscal year-end balance sheet date. The projected unit credit method is utilized in computing the pension obligations. Net periodic benefit cost is based on actuarial models used to estimate the total benefits ultimately payable to participants and is allocated to the respective service periods. The actuarial assumptions used to calculate benefit costs are reviewed annually.

Under ERISA, the Pension Benefit Guaranty Corporation has the authority to terminate an underfunded pension plan under limited circumstances. In the event the Saks Pension Plan is terminated for any reason while it is underfunded, we would incur a liability to the Pension Benefit Guaranty Corporation that may be equal to the entire amount of the underfunding.

Funding requirements for the HBC Europe pension plan may exceed expectations based on the performance of assets in its pension plan which would reduce cash on hand in our businesses.

In Germany, HBC Europe grants many employees retirement, disability and surviving dependent's benefits. New commitments are granted in the form of defined benefit commitments based on employee as well as employer matching contributions. Contributions are paid to a pension reinsurance from which contributions are paid out when the insured event occurs. In addition, various frozen pension funds exist. In general, these provide for lifelong pensions starting with the statutory retirement age or recognized disability. In special cases, benefits are

calculated in consideration of accrued statutory pension entitlements. In Belgium, HBC Europe provides lump sums at retirement as well as annuities based on pensionable earnings and years of service. Generally benefits are funded through group insurance contracts that are subject to Belgian regulatory law.

The defined benefit pension entitlements are valued on the basis of actuarial valuations and assumptions, which are based on legal, economic and tax circumstances prevailing in each country. Such valuations may expose the Company to various risks. These include general actuarial risks resulting from the actuarial valuations (e.g. from the discount rate) as well as capital and investment risks related to plan assets. Assumptions and valuations may change in the future and may have a material impact on the accrued benefit obligations of the Company and the cost of the pension plans, which is reflected in the Company's consolidated statement of earnings (loss). In addition, if the performance of the assets in these pension plans does not meet expectations, HBC Europe's future cash payments, and therefore ours, to the plans could be higher than expected.

There are limits to the insurance policies we have in place that may have a material adverse effect on our businesses and results of operations.

We maintain directors and officers insurance, liability insurance, business interruption and property insurance and our insurance coverage reflects deductibles, self-insured retentions, limits of liability and similar provisions. However, there is no guarantee that our insurance coverage will be sufficient, or that insurance proceeds will be timely paid to us. In addition, there are types of losses we may incur but against which we cannot be insured or which we believe are not economically reasonable to insure, such as losses due to acts of war and certain natural disasters. If we incur these losses, and they are material, this could have a material adverse effect on our businesses and results of operations. Also, certain material events may result in sizable losses for the insurance industry and materially adversely impact the availability of adequate insurance coverage or result in significant premium increases. Accordingly, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to such market changes.

Loss of our Company marks and other proprietary rights could have a material adverse effect on our businesses and result of operations.

We own some of the most recognized banners, brands and trademarks in the retail industry. We believe that these trademarks and other proprietary rights will be important to our success and our competitive position. Accordingly, we will continue to protect our trademarks and proprietary rights. However, the actions taken by us may be inadequate to prevent imitation of our products and concepts by others or to prevent others from claiming violations of their trademarks and proprietary rights by us. We cannot assure that others will not assert rights in, or ownership of, trademarks and other intellectual property rights of ours or in marks that are similar to ours or marks that we license and/or market or that we will be able to successfully resolve these types of conflicts to our satisfaction. In some cases, there may be trademark owners who have prior rights to our marks because the laws of certain foreign countries may not protect intellectual property rights to the same extent as do the laws of Canada, the U.S., Germany and Belgium. In other cases, there may be holders who have prior rights to similar marks. Furthermore, our intellectual property rights may not have the value that we believe they have. If we are unsuccessful in protecting our intellectual property rights, or if another party prevails in litigation against us relating to our intellectual property rights, the value and adequacy of our brand recognition or brand reputation could be diminished and could have a material adverse effect on our businesses and results of operations.

Parties with whom we do business with may be subject to insolvency risks or may otherwise become unable or unwilling to perform their obligations to us.

The Company is a party to contracts, transactions and business relationships with various third parties, including vendors, suppliers, service providers, lenders and participants in joint ventures, strategic alliances and other joint commercial relationships, pursuant to which such third parties have performance, payment and other obligations to the Company. In some cases, the Company depends upon such third parties to provide essential products, services or other benefits, including with respect to store and distribution center locations, merchandise, advertising, software development and support, logistics, other agreements for goods and services in order to operate the Company's businesses in the ordinary course, extensions of credit, credit card accounts and related receivables, and other vital matters. Current economic, industry and market conditions could result in increased risks to the Company associated with the potential financial distress or insolvency of such third parties. If any of these third parties were to become subject to bankruptcy, receivership or similar proceedings, the rights and benefits of the

Company in relation to its contracts, transactions and business relationships with such third parties could be terminated, modified in a manner adverse to the Company, or otherwise impaired. The Company cannot make any assurances that it would be able to arrange for alternate or replacement contracts, transactions or business relationships on terms as favorable as the Company's existing contracts, transactions or business relationships, if at all. Any inability on our part to do so could have a material adverse effect on our businesses and results of operations.

Real Estate Risks

Ownership and leasing of real estate expose us to possible liabilities and losses.

Some of our stores are owned and some are leased. Accordingly, we are, and will continue to be subject to all of the risks associated with owning and leasing real estate. In particular, the value of the assets could decrease, and their costs to operate could increase, because of changes in the investment climate for real estate, demographic trends, and supply or demand for the use of the store, which may result from competition from similar stores in the area, as well as liability for environmental conditions.

Store leases generally require us to pay a fixed minimum rent and a variable amount based on a percentage of annual sales at that location. Generally, we will not be able to terminate these leases, prior to the expiry of the committed term. If a store is not profitable, and we decide to close it, we may be committed to perform certain obligations under the applicable lease including, among other things, paying rent for the balance of the applicable lease term. In addition, as the leases expire, we may be unable to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to close stores in desirable locations.

If an existing owned store is not profitable, and we decide to close the store, we may be required to record an impairment charge and/or exit costs associated with the disposal of the store. In addition, we may not be able to close an unprofitable owned or leased store due to an existing operating covenant which may cause us to operate the location at a loss which could result in an impairment charge.

Failure to manage effectively these and other factors may affect our ability to build, purchase and lease new stores, which may have a material adverse effect on our businesses and results of operations.

We do not have sole control over the properties that we hold with our joint venture partners or over the revenues and certain decisions associated with those properties, which may limit our flexibility with respect to these properties.

We have formed joint ventures with each of RioCan and Simon, whereby we have contributed 10 owned or ground leased properties located in Canada to the joint venture with RioCan and related entities and 83 owned or ground-leased properties located in the United States, Germany and Belgium to the joint venture with Simon. The properties that we lease through our real estate joint ventures total approximately 3.8 million square feet.

Each of the properties contributed to our joint ventures with RioCan or Simon have been leased back to the Company pursuant to a long term leases.

Despite having a 89.7% equity stake in the RioCan-HBC JV and a 69% equity stake in the HBS Joint Venture, a joint venture involves risks, including, among others, a risk that our partners:

- may have economic or business interests or goals that are inconsistent with our economic or business interests or goals;
- may take actions contrary to our policies or objectives with respect to our real estate investments;
- may become bankrupt, limiting their to meet calls for capital contributions and potentially making it more difficult to refinance or sell the property;
- may become engaged in a dispute with us that might affect our ability to develop or operate a property; or
- may have competing interests in our markets that could create conflict of interest issues.

Further, we do not have sole control of major decisions relating to the properties that are owned directly by the joint ventures, including, among others, decisions relating to:

- making any loans or providing financial assistance to any person;
- making additional capital contributions and investments;
- distributing cash;
- refinancing or selling a property;

- issuing new units or other interests in our joint ventures; or
- dissolving or terminating our joint ventures.

Finally, the leases of the properties owned by each joint venture, as landlord, in favour of the Company, as tenant, are long term leases which require payment of fixed minimum rent and generally include annual rent increases during each year of the term. These leases generally expose the Company, as tenant, to the same or similar risks as other leases held by the Company from arm's length third parties.

We may not realize the expected benefits from the joint ventures and we may not be able to effect a future monetization transaction with respect to each of the joint ventures.

There can be no assurance that our real estate joint ventures with RioCan and Simon, respectively, will provide the expected benefits, including enabling us to diversify the tenant base, identify new real estate growth opportunities such as future property acquisitions, or that we will be able to monetize our joint ventures at a future date.

There are potential environmental liabilities relating to our owned and leased real property.

As a direct and indirect owner and operator of both freehold and leasehold real property, we are subject to various federal, state and provincial laws relating to environmental matters. Such laws provide that we could be liable for the costs of removal and remediation of certain hazardous toxic substances released on or in our properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect an owner's ability to sell such real property or to borrow using such real property as collateral and could potentially also result in claims against the owner or operator.

In May 2011, a small PCB spill occurred in the rooftop transformers at the Montreal Downtown Hudson's Bay store. As a result, a small amount of PCBs was released into HBC drains and ultimately into the sewer. Remediation efforts were undertaken immediately. HBC worked with environmental consultants and remediation specialists, in conjunction with applicable regulatory authorities, to remediate as quickly and efficiently as possible. The transformers at the location were subsequently replaced in late 2011 as part of a previously scheduled replacement project. As a result, we are not aware, and do not believe, that there is any further PCB risk at this location. In January 2014, the Company was charged with certain infractions under the *Canadian Environmental Protection Act*. The Company is currently defending such charges.

We are subject to certain obligations under our agreement with Target that could result in potential liabilities.

The Company is subject to risks relating to indemnification rights in favour of Target Corporation and its affiliates ("Target") that are party to the Target Agreement. This indemnification is for up to $1.825 billion with respect to the representations and warranties related to the assigned leases including a breach of a covenant by Zellers for one year from the relevant vacancy date and without limit on amount or time in certain circumstances. Any breach by Zellers of its representations, warranties or covenants under the agreement with Target could result in a substantial indemnification payment to Target, which could have a material adverse impact on the Company's working capital and financial condition, including our ability to affect our growth strategies. As at the date hereof, no indemnification claim has been made against Zellers or the Company.

On January 15, 2015, Target Canada filed an application for protection under the *Companies' Creditors Arrangement Act*. Target Canada assumed all obligations and liabilities of Zellers under certain store leases in 2011 pursuant to the agreement dated January 12, 2011 between us, Zellers, Target Corporation and Target Canada. Although HBC and Zellers each have a full, unconditional and continuing guarantee and indemnity from Target Corporation, parent company of Target Canada, in respect of the obligations assumed by Target Canada under the relevant leases, we are subject to risks relating to potential claims by landlords against either HBC or Zellers (where Zellers remains a direct party to the lease).

On March 6, 2015, Target Canada surrendered 11 leases (which Zellers previously assigned to Target Canada, or its affiliates) to the applicable landlords in connection with Target Canada's proceedings under the *Companies' Creditors Arrangement Act*. In connection with such surrender of leases, the applicable landlords released certain parties, including HBC, Zellers and their respective predecessors, from all claims arising out of or relating to, among other things, such leases.

Our current locations may become less desirable.

The success of any store depends substantially upon its location. There can be no assurance that current locations will continue to be desirable as demographic patterns change. Social or economic conditions where stores are located could decline in the future, thus resulting in potentially reduced sales in those locations. If we cannot obtain desirable locations at reasonable prices, our cost structure will increase and our revenues will be adversely affected.

Economic and External Market Risks

Our businesses are intensely competitive and increased or new competition could have a material adverse effect on our businesses and results of operations.

The Company's leading banners conduct business under highly competitive conditions in the retail merchandising industry. Hudson's Bay, Lord & Taylor, Find @ Lord & Taylor, Saks Fifth Avenue, OFF 5TH, GALERIA Kaufhof, GALERIA Inno and Sportarena have numerous and varied competitors at international, national and local levels, including conventional and specialty department stores, boutiques, category killers, mass merchants, value retailers, discounters, Internet retailers, and mail-order retailers. Some of these competitors have greater financial resources, and as a result, may be able to devote greater resources to sourcing, selling, discovering or promoting their merchandise. Competition may intensify as new competitors enter into the markets in which our banners operate, including in the case of our existing banners, U.S. competitors such as Nordstrom entering the Canadian market, and/or as our competitors enter into business combinations or alliances. We expect competition in the digital commerce market to continue to intensify as the Internet facilitates competitive entry and comparison shopping. Competition is characterized by many factors, including assortment of brands and merchandise, advertising, marketing, promotional activities, price, quality, service, the shopping experience and environment, location, reputation and credit availability. The Company's banners also compete in markets where a substantial number of retailers specialize in one or more types of products than those offered in our existing banners. A number of different competitive factors could have a material adverse effect on our businesses and results of operations, including: (i) increased operational efficiencies of competitors; (ii) competitive pricing strategies, including deep discount pricing by a broad range of retailers during periods of poor consumer confidence or economic instability; (iii) expansion of product offerings by existing competitors; (iv) entry by new competitors into markets in which our banners operate; and (v) adoption by existing competitors of innovative retail sales methods. Failure to compete effectively could result in, among other things, lower sales, reduced market shares, lower gross margin and/or higher operating expenses.

Our businesses depend on discretionary spending of consumers.

Deterioration in the Canadian, the U.S., German and Belgian economies may adversely affect the discretionary spending of consumers, which would likely result in lower sales than expected on a quarterly or annual basis, as well as higher markdowns and increased promotional expenses in response to lower demand. Future economic conditions affecting disposable income, such as employment levels, consumer debt levels, lack of available credit, business conditions, fuel and energy costs, interest rates, foreign exchange rates, tax rates and policies, and consumer confidence in future economic conditions could also have a material adverse effect on our businesses and results of operations by reducing consumer spending or causing customers to shift their spending to other products or other retailers.

Unfavourable economic and political conditions and other developments and risks may also have an unfavourable impact on our results of operations. For example, unfavorable changes related to interest rates, rates of economic growth, fiscal and monetary policies, inflation, consumer credit availability, consumer debt levels, foreign exchange rates, tax rates and policies, unemployment trends, oil prices, and other matters that influence the availability and cost of merchandise, consumer confidence, spending and tourism could have a material adverse effect on our businesses and results of operations. In addition, unstable political conditions or civil unrests, including terrorist activities and worldwide military and domestic disturbances and conflicts, may disrupt commerce, our supply chain operations, international trade or result in political or economic instability and could have a material adverse effect on our businesses and results of operations.

Our primary focus is on selling branded apparel, cosmetics, shoes and accessories catering to a wide range of consumer demands between mass merchandisers and luxury retailers and which consumers may consider to be discretionary items. During times of unfavourable economic or political conditions, consumers may shop less

frequently, limit the amount of their purchases and/or shift their spending to other products or retailers, which would likely result in lower sales, as well as higher markdowns and increased promotional expenses in response to lower demand.

Additionally, several of our existing stores are located in tourist markets. A downturn in economic conditions, severe weather events or other events such as terrorist activity could impact travel and thus negatively affect the results of operations for stores located within these tourist markets. Increases in transportation and fuel costs, the financial condition of the airline industry and its impact on air travel, appreciation of domestic currency in the tourist markets and its impact on consumer spending power, and sustained recessionary periods in Canada, the U.S., Europe and internationally could also have a material adverse effect on our businesses and results of operations.

Our businesses and operations may be affected by extreme or unseasonable weather conditions or natural disasters.

Extreme weather conditions in the areas in which our stores are located could have a material adverse effect on our businesses and results of operations. For example, as evidenced by the impact of Hurricane Sandy on our stores, in the fourth quarter of 2012, frequent or unusually heavy snowfall, ice storms, rainstorms or other extreme weather conditions over a prolonged period could make it difficult for our customers to travel to our stores and thereby reduce our sales and profitability as our businesses depend on high customer traffic in our stores, result in staffing shortages in our stores, interruptions in the flow of merchandise to our stores and disruptions in the operations of our suppliers. Our businesses are also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with those unseasonable conditions, which could adversely affect our ability to execute our strategy to invest in our stores and right size departments to effectively present seasonal inventory. Reduced sales from extreme or prolonged unseasonable weather conditions could have a material adverse effect on our businesses and results of operations, including lower gross margins due to greater than anticipated discounts and markdowns that might be necessary to reduce inventory levels.

In addition, natural disasters such as hurricanes, tornadoes and earthquakes, or a combination of these or other factors, could severely damage or destroy one or more of our stores or warehouses located in the affected areas which could have a material adverse effect on our businesses and results of operations.

We are subject to risks from our international operations, such as foreign exchange, tariffs, taxes, inflation, increased costs, political risks and our ability to expand in certain international markets, which could impair the ability to compete and profitability.

We currently source private label products and direct imports certain branded products from China and other overseas markets, including Bangladesh, India, Indonesia, Vietnam and Europe, in addition to exchange rate fluctuations, will continue to be subject to risks generally associated with doing business abroad. We do not have direct influence over how these vendors are managed and thus cannot predict the effect of various factors in the countries in which vendors or manufacturers who supply our banners are located, including, among others:

- economic trends in international markets;
- legal and regulatory changes, and our cost of compliance with such laws, including trade restrictions and tariffs;
- difficulty in enforcing intellectual property rights;
- increases in transportation costs or delays;
- increases and volatility in labour costs;
- higher levels of unemployment;
- higher consumer debt levels;
- adverse tax consequences;
- compliance with ethical and safe business practices and adequate supply of products;
- political unrest, terrorism and economic instability; and
- limitations on repatriation of earnings.

Any of the foregoing or other factors associated with doing business abroad could have a material adverse effect on our businesses and results of operations going forward including our ability to plan, source and manage our merchandise mix and inventory levels, as well as expand in certain international markets. While we do not control

the vendors or manufacturers who supply our banners, any violation of applicable local laws or unethical conduct by our vendors or manufacturers, or any negative publicity about their business practices including production methods and labour practices, may also adversely affect the brand image and reputation of our banners and have a material adverse effect on our businesses and results of operations.

We plan to continue expanding our international operations. As a result of these expansion activities in countries outside of Canada and the U.S., our international operations could account for a larger portion of our net sales in future years. Future operating results internationally could be negatively affected by a variety of factors, many similar to those we face in Canada and the U.S., but many of which are beyond our control.

Fluctuations in the U.S. dollar, Canadian dollar, Euro and other foreign currencies could have a material adverse effect on our businesses and results of operations.

There are risks associated with the implications of foreign currency movement on the Canadian, U.S., German and Belgian operations of the Company. The Company currently sources private label products and direct imports certain branded products from China and other overseas markets, including Bangladesh, India, Indonesia, Vietnam and Europe from vendors and manufacturers whose functional currency is not Canadian dollars, U.S. dollars or Euros. Accordingly, fluctuations in the Canadian dollar, U.S. dollar or Euro relative to the currencies of our vendors and manufacturers may adversely affect our inventory costs, which could result in higher costs and lower operating margins. We are also exposed to general market fluctuations of interest rates.

The Company enters into forward foreign exchange contracts to fix the cost of certain purchases of merchandise for its Canadian operations from foreign suppliers in Canadian dollars and utilizes certain derivatives as cash flow hedges of its exposures to foreign currency risk. There is no guarantee that such hedging strategies will be effective. In addition, currency hedging entails a risk of illiquidity and, to the extent the applicable foreign currency depreciates against the Canadian dollar, U.S. dollar, or Euro as applicable, the risk of using hedges could result in losses greater than if the hedging had not been used. Also, hedging arrangements may have the effect of limiting or reducing the total returns to the Company if management's expectations concerning future events or market conditions prove to be incorrect, in which case the costs associated with the hedging strategies may outweigh their benefits.

The Company, whose functional currency is Canadian dollars, has foreign currency risk related to the consolidation of the results for L&T Acquisition, whose functional currency is U.S. dollars and for HBC Europe, whose functional currency is Euros. Exchange rate fluctuations could have a material adverse effect on our businesses and results of operations.

An increase in the cost of raw materials could increase our cost of goods sold.

The fabrics used by many manufacturers who supply our existing banners include synthetic fabrics, the raw materials of which include petroleum-based products. Our suppliers are also affected by the prices of natural fibres, including cotton, which is a raw material in many of our products. Inflationary pressures on commodity prices and other input costs, significant fluctuations or shortages of cotton or other raw materials may increase our cost of goods sold and could impair our ability to meet production or purchasing requirements in a timely manner. An inability to mitigate these cost increases could involve our having to pass on such cost increases, including as price increases to our customers or result in a change in our merchandise mix or inventory levels, and could result in a decrease in our profitability, while any related pricing actions could have a material adverse effect on our businesses and results of operations.

Our revenues and cash requirements are affected by the seasonal nature of our businesses.

Our businesses are seasonal, with a high proportion of revenues and operating cash flows generated during the second half of the fiscal year, which includes the Fall and holiday selling seasons. A disproportionate amount of revenues fall in the fourth fiscal quarter, which coincides with the holiday season. In addition, we incur significant additional expenses in the period leading up to the months of November and December in anticipation of higher sales volume in those periods, including for additional inventory, advertising and employees. This seasonality in revenues, cash flows and expenses could have a material adverse effect on our businesses and results of operations.

Financial Risks

We have a substantial amount of indebtedness which could have a material adverse effect on our businesses and results of operations.

Our degree of leverage could have a material adverse effect on our businesses and results of operations, including: limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; restricting our flexibility and discretion to operate our business; limiting our ability to declare dividends on our Common Shares; having to dedicate a portion of our cash flows from operations to the payment of interest on our existing indebtedness and not having such cash flows available for other purposes; exposing our business to debt capital market risks, including interest rate risk and refinancing risk at maturity; exposing us to increased interest expense on borrowings at variable rates; limiting our ability to adjust to changing market conditions; placing us at a competitive disadvantage compared to our competitors that have less debt; making us vulnerable in a downturn in general economic conditions; and making us unable to make expenditures that are important to our growth and strategies.

In addition, we continue to finance the value of our real estate portfolio held through the real estate joint ventures with Simon and RioCan and have applied the proceeds received in connection with the debt and equity raised in such joint ventures to refinance our existing indebtedness. As a result of these financings, our joint ventures have substantially the same financing risks as those of the Company discussed in this Section, including restricting financial and other covenants that affect the structure and operations of such joint ventures, as well as future financing, sales and other dealings with the properties held by our joint ventures.

Despite our substantial indebtedness level, we will still be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness.

We may be able to incur substantial additional indebtedness in the future. Although our credit facilities contain restrictions on the incurrence of additional indebtedness, such restrictions are subject to a number of qualifications and exceptions, and under certain circumstances, incurrence of indebtedness in accordance with such restrictions could be substantial. Under our current credit facilities and debt instruments we have the flexibility to incur indebtedness in the future. The Company's degree of leverage could adversely affect the Company's ability to obtain additional financing for working capital, capital expenditure, debt service requirements, acquisitions and general corporate and other purposes.

Our existing credit facilities contain restrictions that limit our flexibility in operating our businesses.

Our existing credit facilities contain restrictive financial and other covenants which affect, among other things, the manner in which we may structure or operate our businesses. Our ability to comply with such covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions. A failure by us to comply with our contractual obligations (including restrictive, financial and other covenants) or to pay our indebtedness and fixed costs or to obtain a necessary waiver in connection therewith could result in a variety of material adverse effects, including the acceleration of our indebtedness and the exercise of remedies by our creditors, and such acceleration or the underlying defaults could trigger additional defaults under other indebtedness or agreements. In such a situation, it is unlikely that we would be able to repay the accelerated indebtedness or fulfill our obligations under certain contracts, or otherwise obtain access to sufficient capital or to capital on terms favourable to us to refinance our existing indebtedness and to cover our fixed costs. Also, the lenders under the financing arrangements could realize upon all or substantially all of our assets which secure our obligations.

The failure to maintain adequate financial and management processes and controls could have a material adverse effect on our businesses and results of operations.

We are responsible for establishing and maintaining adequate internal control over financial reporting, which is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of its inherent limitations internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. A failure to

prevent or detect errors or misstatements may result in a decline in our stock price and harm our ability to raise capital.

Dividends are dependent on cash flows of our businesses. The declaration of dividends is at the discretion of the Board of Directors.

The declaration and payment of future dividends will be at the discretion of the Board of Directors, are subject to restrictions under our credit facilities and may be affected by various other factors, including our earnings, levels of indebtedness, financial condition and legal or contractual restrictions. There can be no assurance that we will have the financial flexibility to pay dividends at the same rate (or at all) in the future. For example, we decreased our quarterly dividend payments following the Saks Acquisition in order to retain sufficient cash flows from operations for the payment of financing costs and other expenses stemming from the Saks Acquisition.

Shareholder Composition

A small number of our shareholders could significantly influence our businesses.

L&T B Cayman its joint actors ("L&T B Group"), Hanover and 238 Ontario each have significant influence with respect to all matters submitted to our shareholders for approval, including without limitation the election and removal of directors, amendments to our articles, and by-laws and the approval of any business combination. L&T B Group and Hanover are currently parties to the Initial Nominating Rights Agreement (as defined herein), pursuant to which L&T B Group has the right to nominate four or two directors, depending on the number of Common Shares it holds, and Hanover has the right to nominate up to four directors, depending on the number of Common Shares it holds.

The Company and 238 Ontario have entered into the HSILP Nominating Rights Agreement (as defined herein) which was effective on the closing date of the Saks Acquisition. Pursuant to the HSILP Nominating Rights Agreement, 238 Ontario is entitled to nominate one director and 238 Ontario nominated Andrea Wong to the Board of Directors, effective September 4, 2014. The nominating rights of our significant shareholders may delay or prevent an acquisition of the Company or cause the market price of our shares to decline. The interests of L&T B Group, Hanover and 238 Ontario may not in all cases be aligned with interests of our other shareholders. In addition, the L&T B Group, Hanover and 238 Ontario may have an interest in pursuing acquisitions, divestitures and other transactions that, in the judgment of its management, could enhance its equity investment, even though such transactions might involve risks to our shareholders and may ultimately affect the market price of the Common Shares.

The future sales of Common Shares by our significant shareholders could significantly impact the share price.

Subject to compliance with applicable securities laws, our officers, directors, significant shareholders and their affiliates may sell some or all of their Common Shares in the future. No prediction can be made as to the effect, if any, such future sales of Common Shares will have on the market price of the Common Shares prevailing from time to time. However, the future sale of a substantial number of Common Shares by our officers, directors, significant shareholders and their affiliates, or the perception that such sales could occur, could adversely affect prevailing market prices for the Common Shares.

Our articles and bylaws could delay and discourage favourable takeover attempts.

Certain provisions of the Company's articles and bylaws may make it more difficult or impossible for a third party to acquire control of us or effect a change in our Board of Directors and management. These provisions include that at least 75% of the voting power of all then outstanding Common Shares entitled to vote generally at the election of directors will be required for (i) the approval of extraordinary business, and (ii) the amendment, alteration or repeal of certain provisions of our articles and by-laws.

These provisions could delay, defer or prevent us from experiencing a change of control and management and may adversely affect our Shareholders' voting and other rights. Any delay or prevention of a change of control transaction and management could deter potential acquirers or prevent the completion of a transaction in which our Shareholders could receive a substantial premium over the then current market price for our Common Shares.

Legal and Regulatory Risks

Regulatory requirements including, but not limited to, trade, environmental, health and safety requirements may require costly expenditures and expose us to liability.

We are subject to customs, child labour, environmental, advertising and other laws, including consumer protection regulations and zoning and occupancy ordinances that regulate retailers generally and/or govern the importation, promotion and sale of merchandise and the operation of retail stores and warehouse facilities. Although we have measures designed to ensure material compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions in which we conduct business, there is no assurance that the Company will be in material compliance at all times. In addition, political and economic factors could lead to unfavourable changes in tax laws, which may increase our tax liabilities and could have a material adverse effect on our businesses and results of operations.

We are subject to the risk of product liability claims and product recalls.

We sell products produced by third party manufacturers. Some of these products may expose us to product liability claims relating to personal injury, death or property damage caused by such products, and may require us to take action. We may also be susceptible to various claims, including class action claims, relating to merchandise that is subject to a product recall or liability claim. One or more of our suppliers might not adhere to product safety requirements or our quality control standards, and we might not identify the deficiency before merchandise ships to our stores. If suppliers are unable or unwilling to recall products failing to meet our quality standards, we may be required to remove merchandise from our shelves or recall those products at a substantial cost. Although we maintain liability insurance to mitigate potential claims, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available on economically reasonable terms or at all. Product recalls, withdrawals or replacements may harm our reputation and acceptance of our products by customers, which may have a material adverse effect on our businesses and results of operations. Product recalls, withdrawals, or replacements may also increase the amount of competition that we face. Events that give rise to actual, potential or perceived product safety concerns could expose the Company to government enforcement action and/or private litigation. Reputational damage caused by real or perceived product safety concerns could have a material adverse effect on our businesses and results of operations. Some competitors may attempt to differentiate themselves from us by claiming that their products are produced in a manner or geographic area that is insulated from the issues that preceded the recalls, withdrawals, or replacements of our products.

We are subject to litigation risks that could have a material adverse impact on our businesses and results of operations.

In the normal course of our operations, whether directly or indirectly, we may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to the Company and, as a result, could have an impact on our reputation and ultimately, a material adverse effect on our businesses and results of operations. Even if the Company prevails in any such legal proceeding, the proceedings could be costly which could have a material adverse effect on our businesses and results of operations.

Litigation or regulatory developments in the credit card and financial services industries could have a material adverse effect on our businesses and results of operations.

We are subject to various federal, provincial, state and local laws, rules, regulations and initiatives, including laws and regulations with respect to the credit card and financial services industries, which may change from time to time. In addition, we are regularly involved in various litigation matters that arise in the ordinary course of our business. Although the Company is currently of the view that the disposition of any such litigation is not expected to have a material adverse effect on our businesses and results of operations, the outcome of such litigation cannot be predicted with certainty. Litigation or regulatory developments could have a material adverse effect on our businesses and results of operations.

In foreign countries in which the Company has operations, a risk exists that our employees, associates or agents could, in contravention of our policies, engage in business practices prohibited by Canadian, U.S., German

and Belgian laws and regulations applicable to us, such as the *Foreign Corrupt Practices Act*. We maintain policies prohibiting such business practices and have in place anti-corruption compliance programs designed to ensure compliance with these laws and regulations. Nevertheless, we remain subject to the risk that one or more of our employees, associates or agents, including those based in or from countries where practices that violate such laws and regulations or the laws and regulations of other countries may be customary, will engage in business practices that are prohibited by our policies, circumvent our compliance programs and, by doing so, violate such laws and regulations. Any such violations, even if prohibited by our internal policies, could have a material adverse effect on our businesses and results of operations.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could have a material adverse effect on our businesses and results of operations.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines, and interpretations with regard to a wide range of matters that are relevant to our businesses, including, but not limited to, revenue recognition, investments, merchandise inventories, vendor rebates and other vendor consideration, impairment of long-lived assets, self-insurance liabilities, and income taxes are highly complex and involve many subjective assumptions, estimates and judgments by our management. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported or expected financial performance.